Parex Resources Inc. (TSX:PXT) Is the Greatest Oil Stock You've Never Heard About

Description

Over the past five years, shares of **Parex Resources** (TSX:PXT) are up more than 120%. These returns have crushed nearly every other competitor. For example, over the same period, shares of **Canadian Natural Resources** *fell* by a few percentage points, while **Encana** fell by more than 60%.

Fortunately, the same factors that have led to the company's outperformance are still intact. If you're looking for a well-run company with fantastic assets and exposure to the upside in oil prices, Parex is your ideal stock.

The perfect crude oil stock

There are three major factors to consider when investing in an energy stock:

1. Cost of production
2. Production growth
3. Energy mix

The cost of production is a critical metric for profitability and risk. If a company can produce a barrel of oil at a very low cost, it boosts margins while giving it flexibility during times of crisis, as they likely won't need to take on additional debt or abandon oil fields that might have long-term attractiveness.

Currently, Parex is profitable as long as Brent crude prices are more than $30 per barrel. Over the past decade, prices have only hit these levels once, in early 2016. Low production costs mean Parex can nearly always turn a profit. While competitors have taken on billions in debt, Parex actually has a net cash position, with no outstanding debt and more than $100 million in cash. Whether crude prices are high or low, Parex has been able to avoid taking on costly debt and reinvest heavily into its most attractive assets throughout the cycle.

Production growth is another important metric, especially if the company can grow output cheaply. Since 2013, Parex has been able to grow production per share by 17% annually. Again, this growth has been self-funded due to the company's high profitability. Reserves have grown even faster since 2013, increasing by a whopping 43% per year. This rapid reserves growth means Parex will be able to grow production cheaply for many years to come.

Finally, energy mix is usually the balance between how much oil a company produces versus how much natural gas it produces. Depending on the region of drilling, some companies produce up to 30% natural gas. Over the last decade, natural gas prices have had significantly worse economics when compared to oil.

Fortunately, the reserves of Parex are 98% weighted to oil, making shares a nearly perfect play on oil prices.

Stick with quality, stick with Parex

The massive hit on Canadian energy producers has caused many value investors to take notice. While there are dozens of candidates to choose from, most have outsized debt loads, lower-quality oil production, and double-digit exposure to natural gas. Parex, meanwhile, has some of the best profitability in the industry, high-quality production, and is nearly completely exposed to crude oil prices.

While it may be tempting to looks at beaten-down Canadian producers, Parex is positioned as a high-quality oil producer ready to take on the next decade. Shares recently hit a 15-month low due to lower commodity prices. If you're an oil bull, Parex remains one of your best bets at profiting over the long term.

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