This Ridiculously Cheap Oil and Gas Stock Is Ripe for the Picking

Description

With assets in Columbia, a 100% oil-weighted production profile, and Brent pricing exposure, $3 billion oil and gas stock **Parex Resources Inc.** (TSX:PXT) has clear advantages.

And despite recent noise surrounding the company's failed attempt to sell off its mature assets, I recommend that investors keep this ridiculously cheap oil and gas stock on their buy list, as it has many clear positive qualities for today's energy investor.

Quality assets

Parex' assets have attractive characteristics that make them high quality.

Columbia basins are similar to the Western Canadian Sedimentary Basin 30 years ago, which means a relative ease of extraction through 3D seismic and low-risk directional drilling techniques.

Parex Resources has spent the last many years diligently increasing production (6 years of solid production growth), achieving consistent exploration success, and using the skill and experience of a seasoned management team that has been successful in the past to drive a sharp increase in reserves.

Reserve numbers are high, and with a reserve life of over 11 years and a very successful history of converting possible reserves to producing reserves, this company has clearly has a good track record.

Strong business

Strong cash flows, consistent and reliable production, and a bright future all characterize this company.

Since 2013, Parex has achieved a compound annual growth (CAGR) in production per share of 19%, and a CAGR in reserves of 43%.

As an illustration of the sustainability of this, management recently increased its 2019 production and cash flow guidance.

Production is expected to increase 20% to 52,000 to 54,000 barrels of oil equivalent (boe) per day, with funds from operations expected to be $450 to $500 million and free cash flow expected to be $260 million.

This assumes $60 Brent oil pricing. Brent is comfortably over $60 at the time of writing.

Attractive valuation

Assuming these cash flow numbers materialize, the stock is trading at a price to cash flow multiple of just over three times, a very attractive valuation especially given the quality of the company's assets and financial standing.

With no debt, a reserve life index of over 11 years, and a self-funded business model, Parex offers investors something that is rare in the oil and gas world, making this multiple even more ridiculously low.

And the company agrees. As such, a share buyback was announced in which they intend to aggressively buy back 10% of shares outstanding in order to combat this.

Final thoughts

While Canadian oil prices have suffered through great volatility and downside, Brent pricing, on the contrary, has been more steady and stable.

Parex stock may have been penalized because it is a Canadian stock, and this has presented investors a great opportunity to scoop up a quality stock at ridiculously cheap prices.

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