This Driller Is Poised to Soar as Oil Rallies Higher

Description

Oil has rallied sharply since the start of 2019, making gains that were unexpected by many analysts and industry insiders. The international price Brent has soared by 23% to trade at over US$66 per barrel. Surprisingly, the differential to West Texas Intermediate (WTI) has narrowed to see the North American benchmark selling for US$59 a barrel. There are signs that crude will move higher over the course of 2019, making now the time for investors to buy intermediate oil producer **Parex Resources** (TSX:PXT).

Quality assets

Parex owns over two million gross acres in Colombia covering 21 blocks in the Andean nation's Llanos, Middle, and Lower Magdalena basins. This gives the driller proven and probable reserves of 185 million barrels of oil equivalent with a production life of 10 years and an after-tax net present value of US$3.4 billion, or around $28 per share. That is 37% higher than Parex's current market value and indicates the considerable upside available to investors, particularly should oil rally further as anticipated.

The value of those reserves will expand as oil moves higher. This is because they were calculated using an average assumed 2019 price for Brent of US$63.25 per barrel, which is 5% lower than the current spot price of US$66 a barrel.

Importantly, over a third of Parex's reserves are categorized as proved developed producing, which — along with the driller's demonstrated history of developing its oil assets — indicates that it can fully maximize the value of those reserves.

Parex also reported an impressive 2018 proven and probable reserve-replacement rate of 238% along with a 14% year-over-year increase in the volume of its oil reserves. That coupled with the company growing its proven and probable reserves at a compound annual growth rate of 29% since 2014 can be attributed to its quality oil acreage and enviable history of exploration success.

Growing production

For 2018, Parex reported that its oil output had risen by 25% year over year to 44,408 barrels daily with a very healthy operating netback of US$41.44 per barrel pumped. That is among the best netbacks reported by intermediate oil producers operating in Colombia. It is this considerable operational profitability along with Parex's ability to consistently expand its oil output which makes it a very appealing play on higher oil.

Aside from the quality of its Colombian oil assets, as underscored by their low decline rates and operating costs, Parex can generate such high netbacks because it can access international Brent pricing. This gives it a distinct financial advantage over its peers solely focused on operating in Canada, because Brent is trading at a premium of over US$7 a barrel to the North American benchmark WTI.

For 2019, Parex has forecast oil production of around 53,000 barrels daily, which is 19% greater than 2018. It anticipates that if Brent averages US$60 a barrel during 2019, it will generate a cash netback of around US$26 per barrel, and that will rise to US$29 a barrel if the international benchmark averages US$65 per barrel.

Why it is time to buy Parex

When coupled with the healthy boost in production and higher-than-expected oil prices, it is feasible to see Parex's earnings grow at a decent clip over the course of 2019. What makes the driller particularly appealing is that it has no long-term debt and can fund its planned production growth and exploration activities from the cash flow generated by its operations. That endows Parex with considerable financial flexibility and reduces much of the risk associated with upstream oil producers.

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