# The Top Energy Stock to Buy in a Higher Oil Price Environment

## Description

Oil prices have recovered nicely to US$74 per barrel for Brent, US$66 per barrel for the West Texas Intermediate (WTI), and US$55 per barrel for the WCS from their lows in late 2018. Higher oil prices are going to benefit oil-weighted producers, such as **Parex Resources** (TSX:PXT).



## Business overview

Parex Resources is based in Calgary, but it's engaged in crude oil exploration, development, and production in Colombia and has growth opportunities in that country. It's also able to enjoy the Brent premium pricing.

The company is well managed, as is evidenced by strong profits, consistent growth, and a pristine balance sheet. Additionally, it has decent insider ownership of about 3%.

## Strong profits

Parex Resources stands out as a high margin and highly profitable business. Its recent net margin of 48.4% took the lead in the industry. Its 2018 return on assets and return on equity were also very high at 28% and 37%, respectively.

Parex Resources' funds flow per share have increased in the last two years and are expected to increase this year thanks to rise of the Brent oil price.

## Consistent growth

Parex Resources have consistently increased its production. From 2014 to 2018, it increased its production per share at a compound annual growth rate (CAGR) of about 15% on a debt-adjusted basis. In the period, its 2P reserve per share also grew at a CAGR of 29% on a debt-adjusted basis.

In the period, Parex Resources stock's returns outperformed the **S&P/TSX Energy Index** every single year as well. When energy stocks rallied, Parex Resources stock rallied even higher; when energy stocks fell, the stock fell less. This kind of record showcases Parex Resources stock's price growth persistence. Since 2014, the stock has delivered total returns of more than 26% per year.



The stock doesn't pay a dividend but uses excess cash from strong cash flow generation to buy back shares. This is another reason for the stock to persistently climb higher.

For 2019, Parex Resources estimates to produce 53,000 barrels of oil equivalent per day, which will be an incredible year-over-year growth of 25% on a per-share basis.

## Solid balance sheet

Parex Resources has a solid balance sheet with no debt, but it has a US$200 million undrawn credit facility for financial flexibility. Notably, its cash and cash equivalents have increased every year since 2015 by 69% per year. At the end of 2018, it had nearly US$463 million of cash and cash equivalents.

## Investor takeaway

Parex Resources already has industry-leading margins. If oil prices head higher, it'll further improve the stock's profitability. Currently, **Thomson Reuters** has a 12-month target of US$22.40 per share on the stock, which represents about CAD$30 per share and near-term upside potential of 28%.

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1. Energy Stocks
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1. TSX:PXT (PAREX RESOURCES INC)

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