My Top Canadian Oil Stock to Buy Before the End of June

Description

While the outlook for oil remains uncertain, it shouldn't deter investors from choosing to invest in the energy patch. Despite the big integrated names, such as **Suncor Energy**, attracting the lion's share of attention, it is the smaller intermediate upstream oil explorers and producers that offer the most upside when crude rebounds. A top driller that should be in every energy investor's portfolio is **Parex Resources** (TSX:PXT).

Solid assets and balance sheet

The driller is focused on the strife-torn South American nation of Colombia, where it has 2.2 million gross acres spread over 21 blocks focused on the prolific Llanos Basin and eight blocks in the lower and middle Magdalena Basins. Those petroleum concessions give Parex proven and probable oil reserves of 185 million barrels predominantly weighted to light and medium crude.

Unlike many of its peers, Parex avoided loading up on debt at the height of the last oil boom, giving it a rock-solid, debt-free balance sheet. Parex finished the first quarter 2019 with US$433 million in cash, zero debt, and an undrawn US$200 million credit facility.

Unlike its North American peers, Parex can access international Brent pricing, giving it a handy financial advantage, because Brent is trading at a significant premium of US$7 per barrel to the North American West Texas Intermediate (WTI) benchmark.

While those attributes make Parex an appealing play on higher oil, it is the quality of its oil acreage which makes it a must-own investment.

You see, Parex has an enviable history of drilling success, having made a number of oil discoveries over the last two years. The latest was the Andina Norte discovery in the Capachos block in which it has a 50% operating interest with Colombian government-controlled **Ecopetrol**. The Andina Norte-1 exploration well, which has tapped the oil-bearing reservoirs in the Une and Guadalupe formations, tested at 2,900 barrels of oil daily.

This, along with earlier discoveries, well makeovers, and development activities, sees Parex anticipating second-quarter 2019 oil production of 52,000 barrels daily, which is an impressive 24% greater than a year earlier. The driller has projected that overall annual oil production will average 53,000 barrels daily, or a healthy 19% greater than 2018.

That notable exploration success is responsible for Parex's oil reserves expanding at a very healthy compound annual growth (CAGR) of 29% since 2014. It has also managed to avoid many of the operational issues that have dogged its peer **Gran Tierra Energy**, which has been pummeled by the market after releasing an operational update indicating that its production guidance will be revised downward.

Parex expects to drill 46 wells during 2019, which will support further production growth, and that program will be 20% self-funded.

If Brent averages US$65 per barrel over the course of 2019, then Parex anticipates a netback of US$28-30 per barrel, and that will fall to around US$25-27 if the international benchmark averages US$60. That highlights Parex's considerable profitability, even in the current difficult operating environment weighed down by a poor outlook for crude.

Foolish takeaway

The latest decline in the driller's market value, which sees it down by 15% over the last year, has created a handy entry point for investors seeking a high-quality oil company to boost their exposure to crude.

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