1 Cheap Growth Stock to Consider Buying

Description

Is now a good time to invest in oil stocks? Those who respond in the negative will point to the price of crude being negatively affected by the current economic climate. Others may argue that these economic conditions create an opportunity for investors to scoop up quality oil stocks for a discount. After all, oil and gas will likely remain central to our energy consumption for a little while longer, which means the future of the industry isn't completely dark. With that in mind, let's turn our attention to an oil company that doesn't garner as much attention as some of the biggest players in the industry: **Parex Resources** (TSX:PXT). Is it a buy?

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The case for Parex

Parex operates primarily in the Llanos and Magdalena Basins in central Columbia. The firm's annual average daily oil production has increased steadily over the past few years, jumping by more than 110% since 2014. Parex's proved and probable oil reserves have also gone up significantly, increasing by more than 170% over the same period. These oil reserves are worth upward of $2 billion. With Parex's ability to operate efficiently — as evidenced by the company's excellent margins — the output generated by its current proven and probable oil reserves should generate strong revenues.

Further, Parex's debt level is exceptionally low. While a certain level of leverage isn't a bad thing and is often necessary for corporations to survive, Parex prides itself on funding its projects by relying on the cash flows it generates. The firm's funds from operations have risen over the past few quarters from $68 million in Q1 2017 to $151 million to Q2 2019. Finally, Parex is attractively priced. The oil company is currently trading at just eight times past and eight times future earnings. The firm's PEG ratio, sitting at just 0.64 at writing, also seems to indictable that its share price is undervalued.

A reason to worry?

One of the arguments against purchasing shares of Parex is the fact that there has been little investment in renewable energy coming from the company. Again, oil will continue being important to our energy consumption, but with a push away from fossil fuels and towards cleaner forms of energy gaining steam, many oil companies have made significant headway in that direction. Renewable sources of energy often provide advantages to the environment and the firms who choose to produce them. While this may not be an issue for Parex anytime soon, it is definitely something to keep in mind.

Should you buy?

Some may also take issue in Parex using most of its cash flows to fund its growth, leaving shareholders without dividends. However, Parex is still in its growth phase, and the company has provided decent returns recently. Over the past five years, Parex's share price has jumped by about 52%, which amounts to an annual average increase of more than 10%. While things haven't always been smooth, the oil firm continues to grow revenues and cash flows. Parex will likely continue on that upward trajectory. Investors may do well to consider adding shares of this Calgary-based company to their portfolios.

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