



Canada's Top Discounted Oil Stock to Buy for 2020 and Beyond

Description

After briefly spiking because of the attacks on Saudi Arabia's [oil infrastructure](#), which knocked out around half of the kingdom's production capacity, oil has pulled back; the international benchmark Brent is trading at US\$63 per barrel. Increased geopolitical risk and fears of a war against Iran have triggered an improved outlook for crude and given oil stocks a healthy boost. One driller that has performed well since the start of 2019, gaining 34%, is **Parex Resources** ([TSX:PXT](#)).

Quality oil assets

Parex is a best-in-class oil explorer and producer, which is focused on the Latin American nation of [Colombia](#), where it has mineral concessions totalling 2.3 million acres over 23 blocks in the Llanos and Magdalena Basins. That acreage contains oil reserves of 185 million barrels and, at the current rate of production, are expected to last for 10 years.

Parex has been steadily growing production, reporting average daily oil output of 52,252 barrels for the second quarter 2019, which was an impressive 23% greater than for the equivalent period in 2018. The driller's operations are highly profitable, even in the current difficult operating environment dominated by weaker crude. This is evident from Parex's second-quarter operating net back of US\$41.25 per barrel produced, which was significantly higher than its peers, such as **Whitecap Resources**, which reported a netback of US\$23.25 for the same period.

There are a range of reasons for this, key being that Parex can access international Brent pricing, which trades at a premium to the North American West Texas Intermediate (WTI) benchmark. It is also not exposed to the discounts applied to Canadian crude benchmarks, and Parex's expenses are less, because it is operating in Colombia where a wide range of operational costs are lower than Canada. Parex's second-quarter production expense was US\$5.51 per barrel compared to Whitecap's US\$9.34.

The intermediate oil producer has an impressive history of exploration success and plans to drill a total of 46 wells during 2019 funded by operating cash flow. That has allowed Parex to grow its oil reserves at a formidable clip; the company reported that between 2014 and 2018, it had a healthy compound annual growth rate (CAGR) of 29%.

Parex's solid financial position makes it an even more appealing investment. The driller has a debt-free balance sheet and finished the second quarter with a notable US\$318 million in cash. The fact that Parex can fund its exploration and development program from operational cash flow allows it to preserve that rock-solid balance sheet, providing Parex with considerable financial flexibility.

Parex's attractiveness as a play on firmer crude becomes apparent when it is considered that it is trading at a deep discount to the net asset value (NAV) of its oil reserves. At the end of 2018, the driller's proven and probable reserves were independently determined to have an after-tax NAV of \$32.10 per share, which represents a 47% premium to Parex's current market value. This illustrates why now is the time to buy Parex, even if oil remains soft and Brent continues to trade at around US\$60 per barrel over the short term.

Foolish takeaway

Parex has a proven history of delivering considerable solid returns for shareholders and consistently unlocking value from its mineral concessions in Colombia. Its growing oil production and reserves, high netback, and robust debt-free balance enhance its appeal as an investment. Parex is also very attractively valued trading at a considerable discount to its after-tax NAV, making now the time to buy.

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