This High-Quality Driller Is on Sale — So It's a Top Buy for October

Description

Market pundits have been predicting that crude will rebound sharply ever since prices collapsed toward the end of 2014. While petroleum has yet to recover, as predicted, it shouldn't deter you from investing in the energy sector.

There are a range of emerging events that should help to buoy crude over the medium term, which bodes well for high- quality energy stocks. One of the best upstream oil explorers and producers to buy right now is **Parex Resources** (TSX:PXT).

Quality oil assets

The driller is focused on the Latin American nation of Colombia, where it has 2.3 million gross acres of mineral concessions composed of 23 blocks in the Llanos and Magdalena basins. Unlike many of its peers, Parex has been able to consistently deliver value for shareholders regardless of the difficult operating environment.

This explains why Parex hasn't been as roughly handled by the market as many of its peers, including fellow Colombian driller **Gran Tierra Energy**. The driller has gained 17% for the year to date, whereas Gran Tierra is down by a whopping 53%. The **Energy Select Sector SPDR Fund** is an industry bellwhether ETF with exposure to the largest U.S. oil companies, has remained flat.

The reasons for Parex's solid performance are easy to understand. The driller recently completed a share buyback acquiring 15 million shares at an average price of $20.21, only 11% greater than its current market price, reducing Parex's float and thereby boosting earnings per share.

Parex has also demonstrated that it can consistently unlock value from its oil assets by growing its oil output. Second quarter 2019 production rose by an impressive 33% year over year to 52,252 barrels of crude daily.

For the third quarter, Parex estimates that its oil production will average 53,020 barrels daily, a 1.5% increase over the previous quarter. This leaves Parex well-positioned to take advantage of the next oil rally while allowing it to generate additional revenue to make up for any shortfall caused by softer crude.

The driller's operations are highly profitable in even in the current environment, as illustrated by its solid netbacks. For the second quarter, Parex's netback softened by 8% year over year, but gained 9.5% compared to the previous quarter to an impressive US$41.25 per barrel produced.

This is significantly higher than any of its competitors operating in Canada, highlighting why Parex has been able to remain profitable despite oil prices collapsing earlier this year.

Parex also has an enviable history of drilling success, and during the third quarter successfully drilled one development well and an exploration well, which are expected to boost Parex's oil production.

While the company's pristine debt free balance sheet enhances its appeal as an investment, the fact that it's trading at a deep discount to its net asset value (NAV) makes it a must buy stock.

At a forecast Brent price of US$60 per barrel, Parex has an after-tax NAV of $26.35 per share, which is roughly 30% greater than its current market price. That underscores just how much upside is available to investors even if Brent remains flat and fails to rebound as predicted.

In fact, if Brent soars higher, then the value of Parex's oil reserves will expand considerably, helping its NAV grow. This will also occur as its reserves grow as a result of of Parex's successful 2019 drilling program.

Foolish takeaway

Parex is the top upstream oil explorer and producer to play higher oil. The company's earnings will continue to expand even if crude remains flat over the remainder of 2019, which, coupled with its rock-solid balance sheet and the fact that it is trading at a discount to its NAV makes now the time to buy.

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