1 Top Oil Stock Every Energy Investor Must Own

Description

Oil has rallied sharply over the last two weeks because of increased optimism regarding the global economic outlook sparked by the Fed's latest interest rate cut, which reduced the U.S. headline rate to between 1.5% and 1.75%. That, many pundits believe, could be enough to head off a recession in the world's largest economy and drive greater demand for energy. The international benchmark Brent has gained 24% since the start of 2019 to trade at almost US$63 per barrel, and there are signs that crude will firm further before the end of 2019.

This makes now the time for investors to bolster their exposure to oil by adding high-quality oil stocks to their portfolios. One which stands out for all the right reasons is intermediate upstream oil producer **Parex Resources** (TSX:PXT), which has trailed behind Brent by only gaining 15% for the year to date, making now the time to buy.

Consistently unlocking value

Parex is one of the few upstream oil explorers and producers to have weathered the prolonged oil slump. It began, in late 2014, in outstanding shape and continued to deliver value for shareholders despite weaker crude. The driller earlier this year completed a strategic review aimed at unlocking greater returns for investors, which saw it commence a share buyback that was recently completed. Parex acquired 19% of its outstanding float, which, along with higher crude, will give earnings per share a healthy boost over the remainder of 2019.

The rational for the buyback was quite simple; Parex has, for some time, been trading at a significant discount to its net asset value (NAV). At an average Brent price of US$60 per barrel, Parex has an after-tax net present value of $26.35 per share, which is almost 27% greater than its current market value, highlighting the potential upside available. If Brent averages US$70 per barrel over 2019 to 2023, then that value increases to $32.10 per share, which is a whopping 40% higher than the current share price.

This indicates the tremendous capital gains ahead for investors, particularly when it is considered that Brent has averaged around US$64 per barrel since the start of the year.

There is every indication that Parex's NAV will continue to grow. It has an exceptional exploration success rate and possesses quality mineral concessions, which have seen Parex grow its proven and probable oil reserves at a compound annual growth rate of 29% since 2014.

The driller's attractiveness as an investment is further enhanced by its debt-free balance sheet and considerable cash holdings, which, at the end of the second quarter 2019, came to US$318 million.

Parex also has a proven history of growing production at a solid clip. For the second quarter 2019, its average daily production was an impressive 23% greater than for the equivalent period in 2018, while for the full year Parex expects its oil production to be 20% higher year over year. That will give earnings a healthy boost, particularly if oil continues to rally, and generate around US$260 million in free cash flow for the company.

Foolish takeaway

Parex is a difficult energy stock to ignore. It has consistently demonstrated that it can deliver value for shareholders, even in the current difficult operating environment being experienced. Parex's rock-solid balance sheet and growing oil production as well as reserves will keep boosting its earnings and value, making now the time to buy Parex.

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Author
mattdsmith