This Oil Stock Is on Sale, Making Now the Time to Buy

Description

Oil continues to rally supported by a falling U.S. rig count and increased optimism regarding the outlook for the economy. The international benchmark Brent has gained 17% for the year to date to be trading at over US$63 per barrel, which has been a boon for many Canadian oil stocks with an international presence.

One which is poised to benefit from firmer Brent is **Parex Resources** (TSX:PXT). It has gained 23% for the year to date and appears poised to rally further, making now the time to buy.

Trading at a discount

Parex has 2.3 million acres of mineral concessions in Colombia across the Llanos and Magdalena Basins where it has proven and probable reserves totalling 185 million barrels of crude. Aside from reporting some solid third-quarter 2019 numbers, including an 18% year over year increase in oil production, Parex is a very attractive play on higher crude, because it is trading at a deep discount to the value of its oil reserves.

Those reserves were independently calculated by industry consultancy GLJ Petroleum Consultants to have an after-tax net present value of US$3.4 billion, which equates to a net asset value (NAV) of $33.80 per share.

That represents a notable 64% premium to Parex's current market price, highlighting that the driller is heavily undervalued, making now the time to buy. That NAV was calculated using an average Brent price of US$63.50 for 2019, which is less than the $64.09 averaged by the international benchmark since the start of 2019.

The value of Parex's oil reserves will expand further if Brent firms further. The driller has an enviable history of exploration success which bodes well for further oil discoveries, as Parex advances its drilling program, which points to those reserves expanding in value as they grow.

Aside from Parex trading at a deep discount to its NAV, another attractive aspect of its operations is that the company has a debt-free balance sheet. It finished the third quarter 2019 with US$350 million in cash against total liabilities of US$275 million, highlighting that Parex possesses considerable financial flexibility.

That will not only allow it to weather another oil price collapse, which some pundits are predicting for 2020, but also to continue financing the exploration of its properties, make additional acquisitions, and develop existing oil wells. This will support the expansion of Parex's oil reserves as well as production boding well for its NAV and earnings to keep growing.

The quality of Parex's developed and producing oil assets are highlighted by the driller's solid netback. An upstream oil company's operating netback is a key measure of the profitability of its assets. For the third quarter, Parex reported a netback of US$36.21, which is significantly higher than most of its peers operating in Canada, even after declining by 18% year over year because of sharply weaker crude.

Final thoughts

It is a combination of being able to access premium Brent pricing, low production expenses of US$6.15 per barrel pumped, and growing production, which gives Parex a financial advantage of its peers operating solely in Canada.

For these reasons, its earnings will grow significantly, as oil firms and rebounds from its protracted slump. When that is considered in conjunction with Parex trading at a deep discount to its NAV, there is every indication that its stock will soar, making now the time to buy.

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