This Oil Stock Is on Sale: Buy Today to Profit From Higher Oil in 2020

Description

Oil has rallied strongly since the start of October to see the international Brent benchmark up by 26% to be trading at over US$63 per barrel. This has been a boon for energy stocks, but many Canadian names have failed to rally or have rallied less strongly than crude. One driller that appears very attractively valued and will deliver considerable value as oil rises during 2020 is **Parex Resources** (TSX:PXT). The company has only gained 19% since the start of 2019, despite Brent gaining 26%, indicating that Parex is attractively valued and has further to rally, making now the time to buy.

High-quality oil assets

An attractive aspect of Parex's operations is its high-quality oil assets comprised of 2.3 million acres over 23 blocks in the South American nation of Colombia, containing proven and probable oil reserves of 185 million barrels. Those petroleum concessions are in Colombia's Magdalena and Llanos Basins.

This allows Parex to access Brent pricing, which, because it trades at a premium to the North American West Texas Benchmark, gives it a financial advantage over its peers operating solely in North America. That combined with low operating expenses sees Parex reporting a solid netback, even in the current harsh environment dominated by weaker oil, of US$37.90 per barrel for the first nine months of 2019. This is significantly higher than the netbacks of upstream oil producers operating solely in Canada, underscoring Parex's profitability.

What makes Parex even more attractive is that it is trading at a deep 68% discount to its net asset value (NAV) of $34 per share, highlighting the considerable upside available. As crude rises, the value of Parex's oil reserves, and hence its NAV, will expand, creating additional upside for shareholders. The driller has also been actively growing its oil reserves through exploration and well development drilling. That should see Parex's reserves, which have a 29% compound annual growth rate (CAGR) between 2014 and 2018, continue to expand further, bolstering its NAV and the potential upside available to investors.

A very appealing aspect of Parex is its rock-solid balance sheet. It ended the third quarter 2019, with US$350 million in cash, no long-term debt and total liabilities of slightly less than US$275 million. That endows Parex with considerable financial flexibility to continue its exploration and development program as well as weather another oil price collapse.

The company also has a proven history of growing production, placing it to take full advantage of higher oil. For the first nine months of 2019, Parex's oil output grew by 22% year over year to 52,173 barrels, which was 98% weighted to crude.

The driller has thus far been able to avoid many of the security issues that have been impacting other energy companies operating in Colombia. That can be attributed to it operating in the Andean nation's most mature oil basins, where the industry is generally accepted by most local communities and seen as an important regional employer.

Foolish takeaway

Parex is an extremely attractively valued play on higher oil. Not only will its earnings grow as its production and the value of crude increase, but Parex is trading at a deep discount to its after-tax NAV, indicating that there is considerable upside ahead as confidence returns to energy markets. For these reasons, now is the time to boost your exposure to oil by acquiring Parex.

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Date
2025/08/25
Date Created
2019/11/30
Author
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