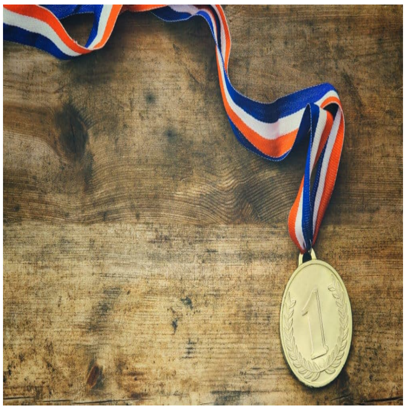

My Top Stock for 2019 Has Returned 17% and Will Rally Further in 2020

Description

Despite rising geopolitical risk, weaker crude, and fears of a full-blown trade war between the world's two largest economies, the U.S. and China, 2019 has been a sold year for stocks. The **S&P 500** surged to new record highs and is up by 25% for the year to date, while the **S&P/TSX Composite Index** soared by 19%, hitting a new high at the end of last month.

While crude has made some solid gains since the start of 2019, especially after slumping sharply toward the end of last year, to see the international benchmark Brent up by 24%, it hasn't been a great year for Canadian energy stocks. Many have recorded significant losses since the start of 2019, regardless of oil's latest gains, but one that has performed strongly and was my top stock for 2019 is **Parex Resources** (TSX:PXT).

Growing oil production

The driller, which is focused on the strife-torn Latin American nation of Colombia, where it has 2.3 million acres across 23 onshore blocks, has gained a notable 17% and is poised to unlock further value for shareholders going into 2020. There is every indication that Parex will deliver on its 2019 guidance with oil production at the upper end expected to average 53,000 barrels daily, which is a 19% increase over 2018.

For the first nine months of 2019, Parex reported average daily oil production of 52,173 barrels, which was 22% higher than the equivalent period a year earlier. It expects fourth-quarter 2019 output to average over 53,500 barrels daily.

Growing oil output will allow Parex to cash in on firmer Brent and boost its earnings.

The driller anticipates that it will generate funds from operations (FFO) of up to US$560 million and free funds flow of US$330 million, meaning that not only is Parex's drilling program funded by operations, but its cash holdings will continue to grow.

Attractively valued

Parex initiated a strategic review during 2018, which was finished in mid-December and concluded that the market wasn't recognizing its true intrinsic value. That saw the driller initiate a share buyback, which was concluded in October 2019; Parex acquired 10% of its public float.

This has done little to boost Parex's share price with fears of rising geopolitical risk and the potential for a global economic slump combined with a trade war to spark a further decline in energy demand weighing on its market value. As a result, Parex continues to trade at a deep discount of around 70% to its net asset value (NAV), indicating that there is considerable upside ahead, as its oil reserves expand and Brent rallies higher.

While I am not a huge fan of share buybacks, the fact that Parex is trading at a deep discount to its NAV and the lack of quality assets to acquire indicates that it was an appropriate use of capital with the intention of delivering further value for shareholders.

Parex's attractiveness as an investment to profit from higher oil is enhanced by its rock-solid balance sheet. The driller finished the third quarter with US$350 million of cash, no long-term debt, and total liabilities of US$274.5 million. That endows Parex with considerable financial flexibility, allowing it to continue funding its drilling program, aimed at growing oil reserves and production, even if oil collapses as some analysts are predicting will occur during 2020.

Is it a buy for 2020?

Parex has not performed as strongly as anticipated, nor has it kept pace with oil, but this has created an opportunity to acquire a quality oil stock which is trading at a deep discount to its NAV. Once geopolitical risk in Colombia eases and Brent rallies along with Parex unlocking further value by growing its oil reserves and production, its stock will appreciate significantly, making now the time to buy.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PXT (PAREX RESOURCES INC)

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