



2 Oil Stocks on Sale to Buy Today and Profit in 2020

Description

The latest news from OPEC will be a boon for Canada's beaten-down energy patch. The cartel and its partners, notably Russia, announced that it would implement deeper production cuts, shaving another 500,000 barrels daily off current production levels. That has given crude a solid lift to see the international benchmark Brent trading at over US\$65 per barrel, up by 19% since the start of 2019. This will give many energy stocks a solid boost, particularly those able to access premium international Brent pricing.

Here are two Canadian oil stocks that can access premium international pricing and are trading at a deep discount to their net asset value (NAV).

Quality Colombian oil producer

Many Canadian investors don't think about Colombia when it comes to investing in energy stocks, but what many don't realize is that Canadian drillers are among some of key investors in the Andean nation's all-important oil industry. Colombia is the fourth-largest oil producer in Latin America, and its energy patch has become a key driver of economic growth. One driller that [stands out](#) for all the right reasons is **Parex Resources** ([TSX:PXT](#)) which, despite gaining an impressive 23% for the year to date, is trailing behind Brent's 27% rally.

Parex is also trading at significant discount of 58% to its NAV, highlighting the considerable upside available to investors. That NAV will continue to grow as oil rallies, further boosting the potential for capital growth.

An incredibly attractive aspect of Parex's operations is its rock-solid balance sheet. The driller, unlike many of its peers, has no debt and minimal long-term liabilities of US\$78 million. It finished the third quarter with an impressive US\$350 million in cash, endowing Parex with considerable financial flexibility.

Diversified international driller

Vermilion Energy ([TSX:VET](#))([NYSE:VET](#)) has lost 34% since the start of 2019, failing to follow crude higher. This has created an opportunity to acquire a [quality driller](#) at an attractive valuation. That becomes apparent when it is considered that after this sharp decline, Vermilion is trading at a whopping 78% discount to its NAV, underscoring the tremendous potential capital gains ahead for investors, if oil continues to rally.

The company's globally diversified operations mean that it can access Brent pricing, giving it a handy financial advantage over those drillers operating solely in Canada. This is because the international benchmark is trading at a US\$5 per barrel premium to North American West Texas Intermediate (WTI) pricing. It also reduces Vermilion's exposure to the additional volatility associated with Canadian crude benchmarks, which trade at a discount to WTI.

Vermilion's oil production has been steadily growing, averaging 97,239 barrels daily for the third quarter 2019, which was a 1% increase over the equivalent period in 2018. That means the driller is well positioned to deliver greater value for shareholders as oil rises in value.

While investors wait for Vermilion's stock to appreciate, they will be rewarded by its regular dividend yielding a monster 14%. There has been considerable speculation that a cut is looming, but so far Vermilion has maintained the dividend, and there are signs it is sustainable.

At a forecast 2019 average Brent price of US\$63.95, which is slightly lower than the year-to-date average, Vermilion has a total payout ratio, including dividends and capital expenditures, of just over 100%. That ratio is forecast to fall below 100% during 2020 using an estimated average annual Brent price of US\$62 per barrel. Vermilion can also dial down its capital expenditures to reduce the payout ratio, but it likely won't need to because of the increased optimism surrounding the outlook for oil.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:PXT (PAREX RESOURCES INC)
3. TSX:VET (Vermilion Energy Inc.)

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