My Top Stock for 2019 Gained 44% and Is Poised to Rally Further in 2020

Description

Oil has rallied significantly once again to see the international benchmark Brent up by 32% since the start of 2019 to be trading at around US$67 per barrel at writing.

This will be been a boon for the beaten down energy patch, where many Canadian oil stocks have failed to rally, creating an opportunity for investors.

One driller that every investor seeking to profit from higher oil should own is **Parex Resources** (TSX:PXT), which has gained a whopping 44% since the start of 2019. There are signs that the driller will continue to deliver considerable value for patient investors.

Quality assets

Parex recently announced another oil discovery in Colombia, where its operations and petroleum concessions are located. The discovery was made on its LLA-32 block in the Llanos Basin where the Azogue-1 exploration well, in which Parex has a 75% working interest, is located.

That, along with earlier discoveries made in 2019, will boost Parex's oil reserves and ultimately production as they are developed to operational capacity.

This is a particularly positive development amid an operating environment where optimism has returned to global energy markets and oil is expected to firm.

Parex is continuing with its well development and exploration program, which will likely further bolster its reserves and production.

In fact, Parex is trading at a deep 44% discount to the after-tax net asset value (NAV) of $33 per share, highlighting the considerable upside available. The driller's NAV will expand as oil rises in value and its reserves expand because of recent oil discoveries and well workovers.

Parex is also able to access international Brent pricing, giving it a handy financial advantage over its peers operating solely in Canada. Brent is trading at a US$5 per barrel premium to the North American West Texas Intermediate (WTI) benchmark.

It also means that Parex isn't exposed to the additional volatility associated with Canadian oil benchmark prices, which typically trade at a discount to WTI.

That combined with growing oil production, firmer prices and a focus on reducing costs will give Parex's profitability and earnings a solid lift, which will translate into a higher share price.

In fact, for the first nine months of 2019, Parex reported an operating netback, a key measure of profitability, of US$37.90 per barrel that's significantly higher than any of its peers operating in Canada.

Parex's rock-solid balance sheet bolsters its attractiveness as an investment. It finished the third quarter 2019 with no long-term debt, total liabilities of US$275 million and US$350 million in cash.

That highlights the considerable financial flexibility that Parex possesses, meaning that even if crude softens it is capable of funding its exploration and development drilling, thus ensuring that production and reserves will continue to expand.

A combination of deeper production cuts by OPEC and Russia, with the agreement that they would shave another 500,000 barrels daily of their collective oil output and slowing U.S. oil production growth points to crude remaining firm during 2020.

For these reasons, Parex's earnings will grow at a steady clip, thereby boosting its market value.

Foolish takeaway

While energy stocks have been on the nose for investors since the oil slump started in late 2014, there are signs that crude will firm further as we head into 2020. For the aforementioned reasons, Parex is very attractively valued and one of the best ways to play higher oil, making now the time to buy.

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