Load Up on This Top Oil Stock and Beat the Market in 2020

Description

A renewed sense of optimism entered energy markets after the OPEC meeting in which the cartel and its key ally Russia decided to shave another 500,000 barrels daily off their collective oil output. That has seen the international oil benchmark Brent gain 36% since the start of 2019 to be trading at over US$68 per barrel.

While many Canadian energy stocks are still trading at deeply depressed levels, one high-quality driller, **Parex Resources** (TSX:PXT), offers investors the ability to earn market-beating returns, even if oil remains depressed.

Parex has delivered a stunning 470% for shareholders over the last 10 years compared to the **S&P/TSX 60**, gaining a mere 47%; Brent lost around 15%. There is every indication that the driller is deeply undervalued and poised to unlock significantly greater value, even if oil remains volatile and weak.

Quality long-life assets

Parex, which operates in the Latin American nation of Colombia, holds 2.7 million acres in the nation's Llanos and Magdalena basins, where it has proven and probable oil reserves of 185 million barrels with a 10-year production life. After deducting lease, decommissioning, and other long-term liabilities, Parex's oil reserves have an after-tax net asset value (NAV) of around $33 per diluted share, using an assumed average Brent price of US$66 per barrel over 2019 and 2020.

Currently, Parex is trading at a 37% discount to its NAV per share, highlighting the considerable upside available, particularly when it is considered that Brent is trading at US$66 per barrel and appears poised to rally higher. The value of Parex's oil reserves will expand as crude firms, particularly once Brent rises above US$66 per barrel.

The driller announced a new oil discovery in December 2019, which is the second discovery it made during 2019, indicating that its oil reserves will expand, increasing their value.

There is also every likelihood that Parex will make further oil discoveries in 2020, thereby boosting its reserves. In December, it was awarded three additional blocks in Colombia's Llanos, Upper Magdalena, and Middle Magdalena basins. Increased reserves also mean that Parex will be able to continue expanding production at a solid clip, thereby boosting earnings, particularly in an operating environment where crude is firming.

Parex also has a financial advantage over its peers operating solely in North America, because it can access international Brent pricing, which trades at a US$5 per barrel premium to the North American West Texas benchmark. That, along with lower production expenses than many drillers operating solely in Canada, makes Parex's operations significantly more profitable, which becomes apparent when reviewing its netbacks.

An upstream oil producer's netback is a key measure of operational profitability. For the first nine months of 2019, Parex reported a netback of US$37.90 per barrel sold, which is far higher than many of its Canadian peers. For the same period, **Crescent Point** reported a netback of US$26 per barrel, while **Whitecap Resources** was around US$23 per barrel, highlighting that Parex's operations are far more profitable.

The driller's attractiveness as an investment is enhanced by its rock-solid, debt-free balance sheet. Parex finished the third quarter with US$350 million in cash and cash equivalents and total long-term liabilities of US$78.5 million, endowing the company with considerable financial flexibility. That is a vital attribute to possess in an operating environment where volatile oil prices have created considerable uncertainty.

Parex expects to fund its exploration and development program from operating cash flow and existing funds, meaning that its spotless balance sheet will remain untarnished.

Foolish takeaway

Parex, despite weaker oil, has unlocked considerable value for investors, while maintaining a solid debt-free balance sheet. There is every indication that it will continue to deliver significant value as oil climbs higher with a sense of renewed optimism filling global energy markets. Those factors combined with Parex trading at a considerable 37% discount to its NAV mean there is considerable upside ahead for shareholders, making now the time to buy.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PXT (PAREX RESOURCES INC)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/23
Date Created
2020/01/05
Author
mattdsmith