2 Top Canadian Energy Stocks Trading at a Discount to Buy in 2020

Description

Oil continues to whipsaw wildly, rallying significantly in the wake of substantially higher tensions in the Middle East, as Iran and the U.S. teetered on the brink of war, and then pulling back sharply as the crisis eased. That saw the international benchmark Brent soar briefly to a multi-year high of over US$75 per barrel and then plunge to trade at just over US$64 per barrel.

There are a range of factors weighing on oil, including the rapidly deflating risk premium created by the latest Middle East crisis, growing U.S. shale oil production, and fears of weaker demand growth because of a softer global economy. Those factors are applying pressure to energy stocks to see the **Energy Select Sector SPDR Fund** down by 7% over the last year. That — along with many Canadian oil stocks failing to rally — has created considerable opportunities for investors seeking to boost their exposure to oil.

Here are two oil stocks poised to deliver value in 2020 and beyond that every investor should consider.

Colombian oil producer

My top energy pick for 2019 was intermediate upstream oil producer **Parex Resources** (TSX:PXT), which has risen by 22% over the last year, and I remain bullish on the company for 2020. Parex has amassed 2.7 million acres across the Andean nation's Llanos and Magdalena Basins, which hold proven and probable oil reserves of 185 million barrels.

The driller has had considerable drilling success announcing two oil discoveries during 2019, which will expand its oil reserves. Parex also acquired three additional blocks in Colombia's Llanos and Magdalena Basin's, which have the potential to further boost its oil reserves, particularly if they perform as strongly as its earlier purchases. The driller is trading at a deep 40% discount to the after-tax net asset value (NAV) of its oil reserves, indicating that there is considerable upside ahead, making now the time to buy.

Growing oil reserves coupled with a high rate of drilling success will also sustain higher production. This will allow Parex to maintain the impressive 15% compound annual growth rate (CAGR) reported for its oil output between 2014 and 2018. Parex will also be able to take full advantage of higher oil and significantly boost its earnings as well as cash flow. The driller's attractiveness as a play on higher oil is significantly enhanced by its rock-solid, debt free balance sheet.

For the reasons discussed, Parex will unlock further considerable value during 2020, making now the time to buy.

Globally diversified driller

One Canadian upstream oil producer that has been roughly handled by the market is **Vermilion Energy** (TSX:VET)(NYSE:VET). It has lost a whopping 35% over the last year compared to the North American benchmark West Texas Intermediate (WTI) gaining 10%. This not only indicates that it is very attractively valued but also sees Vermilion paying a dividend with a very juicy 13% yield.

Vermilion owns a globally diversified portfolio of petroleum assets across North America, Western Europe, and Australia, which hold gross oil reserves of 488 million barrels. Those reserves give Vermilion an after-tax NAV of around $26.74 per share, which is 26% greater than its current market price, indicating that there is considerable upside ahead.

Vermilion has a long history of production growth reporting a 7% CAGR for its oil output from 2012 to its 2019 forecast daily average of round 100,000 barrels. The driller's steadily expanding oil output, along with firmer oil, will give Vermilion's earnings a healthy boost.

While there is considerable speculation that a dividend cut is looming, particularly if oil weakens further, the payment appears sustainable with Vermilion forecasting a total 2020 payout ratio of less than 100%.

Importantly, Vermilion's 2020 guidance is based on WTI averaging US$60.44 per barrel during the year, which is only 5% greater than the current spot price and 2% higher than the United States. EIA has a 2020 forecast of US$59.25 per barrel. This indicates that the guidance is achievable.

Furthermore, Vermilion's CEO has publicly committed to maintaining the dividend. When that is combined with the company's history of retaining the payment, even when crude dipped below US$30 per barrel, highlights that it will remain untouched for the foreseeable future. That indicates investors can buy Vermilion today and lock in a juicy 13% yield, which will reward them while they patiently wait for oil to recover and its stock to appreciate.

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.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/25
Date Created
2020/01/22
Author
mattdsmith