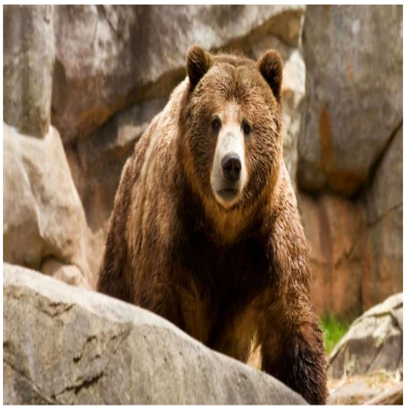

Ignore the Bear Market: Buy This Quality Oil Stock Today

Description

Oil continues to fall to see the international Brent price plunging to US$52 per barrel and the North American West Texas Intermediate (WTI) benchmark slide to below US$50 per barrel.

The sharp decline in energy prices, after starting 2020 with an optimistic outlook because of further OPEC production cuts and claims that U.S. shale oil production was in decline can be attributed to the outbreak of the coronavirus.

The pandemic, which has triggered a lock-down in some Chinese cities, has caused economic activity in the world's second-largest economy to virtually grind to a halt.

Amid an already fragile world economy, where industrial activity has declined sharply since mid-2019, this has sparked considerable concern that an economic crisis could emerge, especially as more coronavirus cases are identified outside China.

A marked decline in GDP growth in China will have a significant impact on oil prices because it is the world's second-largest user of petroleum and responsible for over 50% of global demand growth for crude. That will only be exacerbated if the global economy falls into recession.

This has seen energy stocks roughly handled by the market**,** with the largest oil exploration and production exchange traded fund (ETF) **SPDR S&P Oil & Gas Exploration & Production ETF** losing a whopping 33% since the start of 2020.

While oil stocks will remain under pressure for the foreseeable future**,** it has created an opportunity to acquire some high-quality upstream oil companies at very attractive valuations.

One that stands out is **Parex Resources** (TSX:PXT), which has lost 24% for the year to date because of the worsening outlook for oil. This has created an opportunity to acquire a high-quality intermediate oil producer operating in Colombia**,** which is trading at a deep discount to the value of its key asset: proven and probable oil reserves.

Growing oil reserves

Compared to 2018, Parex recently announced that its proven and probable oil reserves had increased by 7% to 198 million barrels**,** which are 97% weighted to oil, giving them an after-tax net present value of US$3.6 billion.

After deducting long-term liabilities, including leases, taxes and decommissioning liabilities, those reserves have an after-tax net-asset value of $33.33 per diluted share, a 45% premium greater than Parex's market price. That highlights the considerable upside available once oil rebounds, making now the time to buy.

Parex continues to experience considerable drilling success, reporting a proven and probable reserve replacement rate of 171% for 2019, boding well for further expansion of its oil reserves during 2020.

The company plans to drill 60 wells during 2020 from its internally funded exploration and development program, boding well for additional oil discoveries and further growth of its oil reserves, causing Parex's NAV to expand.

Parex also is one of the few upstream oil explorers and producers to have no debt and an undrawn US$200 million credit facility**,** meaning that it's well positioned to weather the current difficult operating environment.

The driller has performed quite strongly over the last eight years, even after allowing for the prolonged oil slump that, gaining 149%, or a compound annual growth rate (CAGR) of 12%, seeing it outperform many household names on the **TSX**.

Foolish takeaway

While the short-term outlook for crude is poor, it will rebound strongly by the end of 2020. The latest uncertainty to grip energy markets sees Parex trading at a very attractive valuation, with quality oil assets and a rock-solid balance sheet, making now the time to buy this high-quality oil stock.

CATEGORY

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2. Investing

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