This Debt-Free Canadian Oil Stock Is on Sale, Making Now the Time to Buy

Description

The latest oil price collapse, which sees the international Brent benchmark price down by 50% since the start of 2020, has impacted energy stocks. There is every indication that lower oil prices on the way, with the Kingdom of Saudi Arabia, indicating that it intends to boost its oil output once the last round of production cuts comes to an end. That certainly doesn't bode well for energy stocks, particularly those with high debt and operating costs.

Nonetheless, it shouldn't deter investors from adding quality energy stocks to their portfolios. One which stands out for all the right reasons and delivered a stunning 44% during 2019, beating the **S&P/TSX Composite Index's** 19% return, is **Parex Resources**.

The intermediate upstream oil producer has lost 27% for the year to date, leaving it very attractively valued and creating an opportunity to acquire a quality debt-free oil stock that will soar once crude rebounds.

Growing oil reserves

Parex reported some solid oil reserves growth for 2019, with its proven and probable oil reserves expanding by 7% compared to a year earlier to 198 million barrels of crude**,** which are 97% weighted to oil and other petroleum liquids.

Those reserves were independently valued to be worth US$3.6 billion after-tax. Once taxes, leases, decommissioning costs and other long-term liabilities are deducted, Parex's oil reserves have an after-tax net asset value (NAV) of around $33 per share, almost double the driller's current market value.

That value was calculated using an average Brent oil price of $70 per barrel over the next five years. Given the latest events and oil price collapse, which sees Brent trading at around US$45 per barrel, it appears optimistic.

According to the driller’s own calculations, its proven and probable reserves possess a NAV of $28.80 per share at a flat Brent price of US$60 per barrel, 65% higher than its share price.

An average Brent price of US$55 sees that NAV fall to around $24 per share **—** still a notable 38% greater than Parex’s market value, further indicating that it is heavily undervalued.

While oil prices will remain depressed for the short-term because of coronavirus and recessionary fears, they will recover over the long term, with analysts predicting that the international Brent price could be as high as US$65 by 2022. For these reasons, the fear weighing on energy stocks has left Parex very attractively valued, making now the time to buy.

The driller’s appeal is enhanced by its rock solid balance sheet with no long-term debt. Unlike many of its peers, however, Parex chose not to load up on debt at the height of the last oil boom in order to fund the expansion of its assets and operations.

That endows Parex with considerable financial flexibility, leaving it well positioned to weather the latest oil price collapse and then dial up spending on its exploration and well development activities once oil prices recover.

Looking ahead

Energy stocks have fallen into disfavour because of sharply weaker oil and the poor outlook for global growth caused by the spread of the coronavirus. While the short-term outlook is poor, oil prices will recover over the medium to long-term.

That bodes well for Parex and its future financial performance, which, with the company trading at a deep discount to the NAV of its proven and probable reserves, makes now the time to buy.

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