1 Top Contrarian Canadian Oil Stock to Buy Today

Description

The latest oil price collapse has hit energy stocks particularly hard. The international Brent price has lost a whopping 59% since the start of 2020, and oil could fall further before it bottoms. A looming demand shock coupled with growing supply because of the price between Saudi Arabia and Russia will apply considerable pressure to prices.

While this means that the outlook for oil stocks is gloomy and will be so for some time, it should prevent investors from adding quality drillers to their portfolio. One top contrarian play on an eventual rebound of oil prices is **Parex Resources** (TSX:PXT).

The driller, which is focused on the South American nation of Colombia is very attractively valued and possesses solid fundamentals.

This driller is on sale

Parex has an after-tax net asset value of around $33 per share, roughly triple its current market value. This indicates that there is a considerable margin of error for investors, highlighting Parex's attractiveness as an investment. It also underscores the considerable capital growth available over the long term once oil rebounds.

Petroleum will recover once coronavirus fears subside and the full fallout from the pandemic can be quantified. Saudi Arabia and Russia will likely ease their price war once sharply weaker oil starts to have a material impact on their fiscal income and budgets, boding well for the long-term outlook for beaten-down oil stocks like Parex.

Strong fundamentals

Parex, unlike many of its competitors, possesses solid fundamentals, allowing it to easily weather the storm engulfing energy stocks. The driller has a rock solid balance sheet, no long-term debt — and Parex finished 2019 with a notable US$397 million in cash, endowing Parex with considerable financial flexibility.

Amid the current difficult operating environment, Parex will elect to reduce its 2020 capital expenditures. The driller's original annual budget is based on a forecast average Brent price of US$60 per barrel, more than double the US$27 average since the start of 2020. By reducing spending on its capital program Parex will be able to maintain that pristine balance sheet.

If Brent averages US$30 per barrel during 2020, Parex plans to spend US$160 million on exploration and development activities, which is 33% lower than the upper end of its original budget.

Growth ahead

While such reductions in capital expenditure typically cause production to fall, Parex doesn't expect it to impact its annual production guidance.

The driller still expects to produce 54,500 barrels daily, which is the bottom end of its original guidance and 3% higher than 2019. An annual average price of US$30 per barrel appears reasonable in the current operating environment.

An outstanding aspect of Parex's strategy for 2020 is its plan to continue the share buyback. Parex has stated that it intends to reallocate capital from growth activities to accelerating its share buyback.

That will see Parex acquire up to 100,000 of its common shares per day in an environment where it is trading at a deep discount to its NAV. The company plans to acquire 10% of its outstanding common share float.

This further bodes well for the driller's stock to rally sharply once the current level of uncertainty subsides.

Even after the sharp reduction in exploration and development spending, Parex's oil reserves and production will grow during 2020. It is on track to complete seven wells during April 2020 on its 100%-owned Cabrestero block in Colombia's Llanos Basin.

Foolish bottom line

Oil stocks are on the nose for investors. A combination of coronavirus fears, sharply weaker demand and growing global supply is applying considerable pressure to oil prices. However, this shouldn't deter you from buying a quality driller like Parex.

It's trading at around a third of the after-tax NAV of its proven and probable oil reserves, indicating considerable upside ahead once oil rebounds.

Parex also possesses quality assets and solid fundamentals, making it a highly attractive contrarian investment in a difficult market environment.

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