2 Top Canadian Oil Stocks to Buy for 2020

## Description

Oil and energy stocks have plunged in value since the coronavirus pandemic emerged. The **Dow Jones Industrial Average** has lost 20% since the start of 2020, while the **S&P/TSX Composite** has shed 21%. The latest oil price collapse, which sees crude down by over 50% for the year to date, has hit oil stocks hard, leaving many attractively valued.



There is considerable speculation as to whether the stock market and oil prices have bottomed or whether there are further losses ahead.

Regardless, this shouldn't deter you from buying quality oil stocks at attractive valuations. Let's look at two beaten- down oil stocks every investors should know.

# Leading upstream oil producer

One of the few drillers to weather the protracted oil slump in solid shape is **Parex Resources** (TSX:PXT). This oil explorer and producer is focused on Colombia — and has lost 45% for the year to date. That is still lower than the 53% decline in the international benchmark Brent price, however.

As a result, Parex is trading at a deep 148% discount to the after-tax net asset value of its proven and probable reserves, highlighting the considerable capital gains available once oil rallies.

Parex's appeal is further enhanced by its solid debt free balance sheet. It has US$390 million in cash and another US$200 million available from an undrawn credit facility, endowing the driller with considerable financial flexibility. This will allow it to weather the current harsh operating environment and emerge in a strong position.

In response to the coronavirus pandemic and ensuing oil price collapse, Parex has suspended its 2020 drilling program. That will reduce spending by up to US$30 million. Parex also expects to significant cost savings, particularly because of the weakness of the Colombian peso compared to its earnings which are generated in U.S. dollars.

The reduction in capital spending will have only a marginal impact on 2020 oil production. Overall annual output will decline moderately year over year, thus reducing the impact on revenue.

For these reasons, Parex will rally significantly once the economic outlook improves and oil rebounds, making now the time to buy.

## Cash flow machine

**Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) reported some impressive numbers for 2019. These included record free cash flow of $4.6 billion. That strong performance can be attributed to Canadian Natural's low cost, low decline rate long-life oil assets.

It is those qualities which will allow the oil sands giant to weather the current oil price collapse.

For 2019, Canadian Natural reported company wide production expense for its upstream operations of $11.49 per barrel, which was 10% lower year over year. That indicates that even with West Texas Intermediate (WTI) trading at US$24.62 per barrel, its operations will be cash flow positive.

Canadian Natural also possesses a solid balance sheet. By the end of 2019, it had reduced net debt by almost 7% compared to the previous quarter. Canadian Natural's net debt of $20.8 billion was a manageable 2.4 times operating cash flow.



The company has moved to shore-up cash flows and its balance sheet in response to the coronavirus pandemic and oil price collapse. This includes reducing its capital budget by a notable 27% and an increased focus on driving greater operational efficiencies as well as cost reductions.

Notably, Canadian Natural's 2020 forecast oil production remains unchanged from its original annual guidance. That will see it produce an average of 1.1 million to 1.2 million barrels daily for 2020 and further minimize the impact of the oil price collapse on Canadian Natural's earnings.

## Foolish takeaway

The short-term outlook for oil and energy stocks is poor. Higher oil prices depend on OPEC and Russia coming to terms over production cuts. There is also the looming demand shock caused by the economic fallout from the coronavirus.

Nonetheless, oil will rebound over the long term, triggering a monumental rally among quality beaten-down oil stocks like Parex and Canadian Natural.

The current sharp decline has created an opportunity to buy both companies at very attractive valuations to access outsized returns.

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