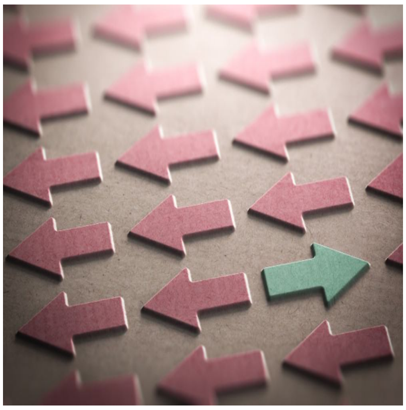

1 Top Canadian Oil Stock to Buy Regardless of the Oil Price Collapse

Description

The coronavirus pandemic triggered a spectacular oil price collapse, which is weighing heavily on oil stocks. Even the latest rounds of production cuts, where Saudi Arabia and Russia agreed to shave almost 10 million barrels daily off their collective output, has failed to bolster oil prices. The international Brent benchmark has lost 58% since the start of 2020 to be trading at US$28 per barrel.

This has hit oil stocks hard. The largest industry ETF, the **Energy Select Sector SPDR Fund**, has lost 46% for the year to date, and many oil stocks have recorded even greater losses. While the considerable uncertainty surrounding the outlook for oil makes many energy stocks highly unattractive investments, one top contrarian pick is **Parex Resources** (TSX:PXT). The driller, which was my top energy pick for 2020, has lost 46% since the start of the year, making now the time to buy.

Solid fundamentals

Unlike many of its peers, Parex didn't load up on debt during the last oil boom. As a result, the driller has no long-term debt. Parex also has low non-material leasing and decommissioning liabilities.

At the start of April 2020, Parex possessed considerable liquidity. It had US$390 million in cash and a further US$200 million available from an undrawn credit facility.

These attributes endow Parex with considerable financial flexibility. That solid balance sheet and considerable liquidity will allow Parex weather the current harsh operating environment in solid shape.

Trading at a deep discount

Parex owns 206 million gross acres of oil acreage in Colombia's prolific Llanos and Magdalena Basins. Those properties, comprised of 23 blocks, hold proven and probable oil reserves of 198 million barrels.

Parex’s reserves were determined to have an after-tax net present value of US$3.6 billion. After deducting Parex’s long-term liabilities, it has an after-tax net asset value of $38 per share.

This is almost three times greater than Parex’s current share price, highlighting the considerable upside ahead for investors if they buy today. It also indicates that there is a significant margin of safety for investors, further enhancing Parex’s attractiveness as an investment.

Responding to the current crisis

Importantly, Parex’s high-quality conventional oil assets mean that it has a significantly lower corporate decline rate than U.S. shale companies. For that reason, Parex doesn’t need to invest substantial capital in exploration and well development activities to sustain production. For that reason, despite suspending its remaining 2020 drilling program and slashing capital expenditures, Parex’s 2020 production won’t decline significantly.

Even after shuttering operations at legacy fields, as part of its strategy to reduce the spread of COVID-19 among its workforce and local communities, April 2020 production will average 45,000-50,000 barrels daily. At the bottom range, this represents a relatively modest 14% decline compared to 2019.

Parex also has a commodity hedging strategy in place. This will mitigate the impact of sharply weaker oil on its financial performance.

Foolish takeaway

Parex is one of the few upstream intermediate oil producers that is ideally positioned to weather the current oil price collapse. A rock-solid balance sheet and high-quality conventional oil assets will see its shares rally strongly once oil rebounds. Parex will be one of the few upstream drillers to emerge from the current crisis in a solid position. There is considerable potential upside available with Parex trading at around a third of its net asset value, which is why now is the time to buy.

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