



## Contrarian Investors: Here's a Cheap Oil Stock That Can Thrive

### Description

For the first time ever, oil prices traded at negative prices this week. These were futures contracts for May, where traders were essentially paying people to take the oil off of their hands. If you are an investor looking for rare opportunities in which to invest, this is about as good as it gets.

Let that sink in for a second. Oil, a millionaire-making commodity, is now given away as a gift. People were actually paying others to take the stuff off their hands. This is similar to someone in Toronto handing you the keys to their house and paying you a couple of thousand dollars to take it from them. What kind of wild sorcery is this?

### What does this mean for oil stocks?

Well, I'll tell you one thing. It certainly isn't good, at least in the near term. These prices are soul-crushing. They are absolutely devastating for a sector that has seen nothing but heartache for the last five years.

As much as I hate to say it, though, I don't know how the oil industry hits a much bigger bump in the road than having the entire global economy grind to a screeching halt.

There is definitely value in the oil sector. Presently, I mostly own big companies, like **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), since it has a large scale, a great balance sheet, and a pretty hearty dividend at almost 10% these days.

### Leverage through small cap stocks

The truth is, though, that the real money is still likely to be made, or lost, in the smaller-cap stocks. Rare companies like **Parex Resources Inc.** ([TSX:PXT](#)) are [very appealing](#) to me at these levels. Parex benefits from a debt-free balance sheet, something that is a bit of a rarity in the oil sector.

This is a huge advantage for the company if it decides to pick up some of the bargains in the sector using its cash.

## Historic numbers

Numbers from previous earnings reports seem a bit useless at the moment, but it is still helpful to look at the way the company handled itself historically. Funds from operations increased by 42% year over year from year-end 2018 to 2019. Parex is an oil company that was generating [free cash flow](#) even during rough times.

As it didn't pay a dividend, the free cash generated was saved or used for share buybacks. In 2019, Parex bought back 10% of its shares.

Just think: If this debt-free company continues to use a portion of its cash to buy back shares at significantly lower prices, that helps support existing shareholder value and is an effective use of capital. It has already been approved to repurchase another 10% of its shares in 2020.

## On a speculative note

Technically, Parex could even be paid to pick up some of that free oil that is being sold at a negative price. It could use its cash simply to maintain the storage facilities while it waits to sell the oil, already produced. Imagine being paid to get oil that's already produced.

## The bottom line

Investing in oil is not for the faint of heart, especially now. These companies were stepped on, thrown in the trash, and are currently being left for dead. This was a devastating development — the second collapse in oil prices in less than a decade. Oil companies were just starting to get on their feet when it happened, and the rug was pulled out from under them.

Personally, I will almost certainly take these stocks of people's hands at some point, especially debt-free companies like Parex.

They are in the best position to take advantage of the historic collapse in energy prices. With companies now fighting for survival, the best place to look is to those rare gems with excellent balance sheets, solid fundamentals, and the potential to capitalize on the absolute decimation of the oil industry.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:PXT (PAREX RESOURCES INC)

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