2 Top Canadian Oil Stocks to Profit From the Energy Crisis

Description

The latest oil price collapse has seen many TSX-listed Canadian oil stocks emerge as compelling contrarian plays on oil's eventual recovery.

The North American West Texas Intermediate (WTI) benchmark price recently made history, falling to a record low of negative US$37 per barrel. A combination of rising North American inventories, lack of storage capacity, and a massive demand shock were responsible.

While the short-term outlook for oil prices is poor, recent lows have created an opportunity to acquire quality TSX-listed oil stocks at extremely attractive valuations. Here are two top Canadian oil stocks every investor should add to their portfolio.

Debt-free oil producer

Parex Resources (TSX:PXT) owns 2.6 million acres in Colombia. Its share price has declined by a whopping 43% since the start of 2020.

Parex has proven and probable oil reserves of 198 million barrels. Those oil reserves give Parex a net asset value of $38 per share after deducting total long-term liabilities, which is almost three times its current market value. This highlights the considerable upside available once oil rallies and the economy returns to growth.

Parex is one of the few debt-free intermediate upstream oil producers. By the start of April 2020, it had no long-term debt and a notable US$390 million in cash.

In response to the current difficult operating environment, Parex suspended drilling activities to preserve cash. It is also reducing expenses and shuttering production at higher-cost legacy fields.

Parex has some particularly low expenses compared to its peers. These include combined transportation and operating costs of US$13 per barrel. Even after accounting for sharply weaker oil, Parex's production will be cash flow positive because of those low costs and its ability to access premium Brent prices.

The international oil price benchmark is currently trading at US$23 per barrel, which is a premium of US$5 a barrel over WTI. Parex's value will soar once the economy rebounds and oil prices rally.

Quality upstream driller

Frontera Energy (TSX:FEC) is another Canadian driller operating in Colombia. The company has lost a whopping 60% for the year to date. Frontera emerged from the bankruptcy restructuring of Pacific Exploration & Production in 2016.

Frontera has proven and probable oil reserves of 171 million barrels, which have an after-tax net present value of US$2.1 billion. After deducting Frontera's long-term debt, leases, and asset retirement obligations, it has a net asset value of $13.63 per share. This is just over three times greater than Frontera's current share price, emphasizing why now is the time to buy, with considerable capital gains ahead once oil recovers.

Frontera possesses a solid balance sheet. It finished 2019 with $328 million in cash and $639 million in long-term debt, leases, and asset retirement obligations. Frontera's long-term debt totalling US$331 million at the end of 2019 was a very manageable 0.6 times EBITDA. Those robust numbers highlight that Frontera is well positioned to weather the latest oil price collapse.

Frontera like its peers has slashed spending in response to the coronavirus pandemic and the latest oil price collapse. At the end of March, management announced that 2020 capital expenditures would be reduced by around 60%.

Despite the sharp reduction in spending and shuttering of uneconomic wells, Frontera expects annual average oil production to fall by a mere 8% compared to its original forecast to 55,000 to 60,000 barrels daily. That bodes well for Frontera's ability to generate revenue.

In the current harsh operating environment, Frontera will cease paying its dividend. When announcing the commencement of dividends, Frontera advised it would only be paid when Brent averaged US$60 per barrel of higher in the relevant period. Clearly, that will not occur in the current environment.

Foolish takeaway

Many Canadian oil stocks like Parex and Frontera are trading at deep discounts to their net asset value. That makes them extremely attractively valued contrarian plays at this time. Their appeal is enhanced by solid fundamentals, low debt, and considerable cash holdings.

Parex and Frontera will emerge from the current oil crisis in solid shape. When the global economy returns to growth, both will see their stock rally as oil recovers.

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