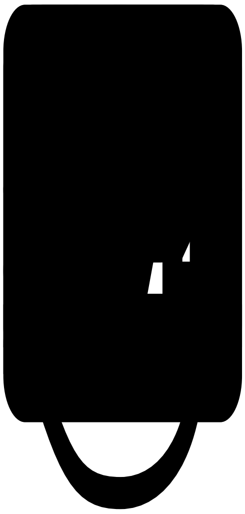
1 Top Canadian Oil Stock to Buy Today

Description

Canadian oil stocks are under considerable pressure from low oil prices. While the current difficult operating environment will lead to further bankruptcies, it has created a once-in-a-decade opportunity to acquire quality Canadian energy stocks at extremely attractive valuations. **Parex Resources** (TSX:PXT) has proven that it is resilient to the prolonged oil slump and can consistently unlock value. The driller has lost 37% since the start of 2020, leaving it very attractively valued.



Over the last five years, Parex has delivered 51% for investors, which is a compound annual growth rate (CAGR) of 8.5%. While past performance is no guarantee of future returns, there are signs that

Parex will continue to perform strongly, particularly once oil rebounds.

Advantage over North American drillers

Parex, unlike other Canadian oil stocks, didn't load up on debt at the height of the last oil boom. As a result, the driller has a debt-free balance sheet, which is an especially important characteristic in the current harsh operating environment. Parex can access International Brent pricing, giving it a financial edge over its North American peers.

You see, Brent trades at a premium to the North American West Texas Intermediate (WTI) benchmark price, which is currently at around US$4.50 per barrel. That coupled with Parex's low operating and transportation costs gives it a handy financial advantage over those upstream oil producers operating in North America.

The driller estimates that for 2020, its operating, transportation, and general expenses will total US$15 per barrel pumped. That bodes well for Parex's operations to remain cash flow positive, despite sharply weaker oil. The driller has taken measures to survive the current difficult operating environment. These include shuttering uneconomic wells and suspending its 2020 drilling program.

Both measures will further reduce operating costs. Parex also finished 2019 with a solid balance sheet and, at the end of March 2020, had US$390 million in cash and US$200 million from an undrawn credit facility. That considerable liquidity will allow Parex to emerge from the latest oil price collapse in solid shape.

This oil stock is on sale today

The company is trading at a deep 85% discount to the after-tax net asset value of its proven and probable oil reserves of $28.84 at an assumed Brent price of US$60 per barrel. This highlights the considerable potential upside available and why now is the time to buy Parex.

While oil will remain weak for the foreseeable future, it will eventually rebound. At current oil prices, many U.S. shale oil producers will be forced to shutter uneconomic production. There will also be a sharp uptick in bankruptcies in the industry. Those events will reduce oil supplies, helping to push prices higher, particularly once the economy returns to growth.

Many oil bulls believe that the bottom for oil is in and that prices will continue to climb. Firmer oil prices will be supported by Saudi Arabia, Kuwait, and the United Arab Emirates pledging to deepen their production cuts.

Foolish takeaway

There are signs that oil consumption will expand once the economy returns to growth. That coupled with diminishing global supply will support higher oil prices. This will trigger a rally among beaten-down Canadian energy stocks. It is Parex that is best positioned to deliver considerable value. A debt-free balance sheet, considerable liquidity, low operating expenses, and access to Brent pricing will support higher earnings. As Parex's earnings grow, its stock will appreciate. Parex was my top Canadian energy pick for 2019; it beat the **S&P/TSX Composite Index's** 19% by delivering a notable 48% for the year.

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