1 Oil Stock to Buy if the Price Drops Again

Description

The oil price war is over and the commodity's pricing has started to recover from all-time lows. The effects of the oil price war, however, were quite unprecedented. Indeed, nobody could have anticipated that the value of crude oil could go into negative territory. In retrospect, the drop is not entirely unjust due to a decreased demand amid the COVID-19 pandemic.

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With no visible end to the pandemic, there's a chance that oil prices could drop again. At writing, the Canadian Crude Oil Index is down by 56.21% from the start of 2020. In the same period, Parex Resources is down by 36.39%. In case oil prices decline again, **Parex Resources Inc.** (TSX:PXT) could be an excellent asset to consider adding to your portfolio.

Today I'm going to discuss the Parex Resources stock so you can understand why it could be an excellent addition to your investment portfolio.

Ideal pricing for the TSX oil stock

Parex Resources enjoys the most competitive market prices for the oil it produces. The oil producer has a small operation compared to the significant players in the industry. It produces a lighter crude oil that sells at Brent Crude Pricing. At writing, Brent Crude is trading for around US$27/bbl, while the Western Canadian Select is trading at US$22/bbl.

It is relatively easier and more affordable to transport Brent Crude oil. Refining the oil is also more cost-effective compared to heavy crude oil, which is why it has a broader demand in global markets. When most North American heavy oil producers were selling at a loss, Parex continued to sell for attractive prices.

Cost-efficient oil producer

Parex doesn't just enjoy better prices — it's also more efficient at producing oil than most of its bigger market capitalization peers. It has a low cost of production and flexibility when it comes to how much it can produce.

Depending on the price of oil at the time, Parex can produce a barrel of oil for US$25 to US$35. During the declining prices because of the oil price wars, Parex still managed to produce either neutral or positive cash flows while other manufacturers were facing consistent losses.

Parex's net-backs are also among the best on the **TSX.** It takes a small appreciation of oil prices to increase profits for Parex.

Parex is a rare oil producer trading on the TSX. In recent years, Canadian oil producers have not seen much operational growth or financial returns. Parex, on the other hand, has managed to increase financial returns and operations.

It has doubled production in the last five years, and its fund flows per share have increased by more than 300% in that period.

Foolish takeaway

At writing, Parex Resources is trading for $15.33 per share. While it might not be able to replicate its growth for the past five years in 2020, it still shows that prices can return to pre-recession levels. The stock also ended 2019 with $390 million cash on its balance sheet to finish strong.

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Should an oil price crash happens again, it would be better to hedge your bets with safer stocks. While I'm not saying Parex is immune to commodity price fluctuations, among its peers, this stock is better equipped to handle the situation.

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