This Oil Stock Has Gained 64% Since the Stock Market Crash

Description

The March 2020 stock market crash and sharply weaker oil prices hit energy stocks particularly hard. Oil has rebounded strongly after the North American West Texas Intermediate (WTI) benchmark plunged into negative territory for the first time ever in April 2020.

The international Brent price has climbed to US$41 per barrel — and will rally even higher over the second half of 2020. The oil price collapse and stock market crash saw oil stocks trading at extremely attractive valuations, creating a once-in-a-generation opportunity to acquire drillers trading at deep discounts to their indicative fair value.

One stock which has performed exceptionally since the 2020 stock market crash is **Parex Resources** (TSX:PXT). The Colombian-based driller has gained a whopping 64% since the stock market bottomed in late March — significantly more than Brent's 18% gain and the **S&P/TSX Composite Index's** 32%. That highlights that even amid the current choppy market weighed down by sharply weaker oil and a poor economic outlook, it's possible to invest in oil stocks and generate outsized returns.

Even after that rally, there are signs that Parex is still deeply undervalued and poised to rally further as oil climbs higher over the remainder of 2020.

Quality oil assets

Parex owns 2.4 million acres composed of 22 blocks in Colombia's prolific Llanos and Magdalena Basins. It has been independently determined that Parex's oil acreage holds proven and probable reserves of 198 million barrels of oil.

Those reserves have been calculated to have an after-tax net asset value of $28.84 using a flat Brent price of US$60 per barrel. That's a whopping 74% greater than Parex's current market value, highlighting the considerable capital gains ahead as oil prices rebound.

Parex has a long history of growing its oil reserves and production. Its oil acreage has considerable exploration upside. Once Parex recommences its drilling program, the company's oil reserves will likely grow, boosting Parex's net asset value to expand creating further upside for shareholders.

Growing oil production

Parex's oil production will grow significantly once development drilling recommences. The company is in the process of improving infrastructure at the Capachos field, where it has a 50% working interest. Parex also acquired five oil blocks in Colombia during the second half 2019, bolstering the exploration potential.

Solid fundamentals

What makes Parex stand out amid a capital-intensive industry where many drillers are heavily indebted is its rock-solid balance sheet. It finished the first quarter 2020 with no long-term debt and a modest US$83 million in other long-term liabilities.

Notably, Parex finished the period with US$397 million in cash, giving it considerable financial flexibility in the current harsh operating environment. Such a large amount of cash will allow Parex to fund further acquisitions and drilling as oil prices recover.

Foolish takeaway

It's easy to see why Parex has performed strongly since the stock market crash. A combination of quality oil assets, robust balance sheet and no long-term debt makes it an extremely attractive play on higher oil.

Now is the ideal time to buy Parex because it is trading at a deep discount to its after-tax net asset value.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PXT (PAREX RESOURCES INC)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/25
Date Created
2020/06/10
Author
mattdsmith