Why This Canadian Energy Play Could Be a Double in 2021

Description

With oil demand expected to reach pre-COVID levels faster than anticipated, oil stocks are on the radar of value investors today.

Indeed, these stocks have been hit very hard during the recent pandemic. Accordingly, the recent bull run in energy and commodities has been welcome news to investors with holdings in this sector.

For those looking for higher leverage to energy right now, I've got a top pick I think could be a double this year. That top pick is **Parex Resources** (TSX:PXT), a company's that already seen its stock price double over the past year.

Excellent business model and fundamentals

The Columbia-based oil producer is currently trading near the $23 mark. I think it's important to point out this is a Colombian company (though its listed in Canada) for one key reason. The company earns its revenue in Brent rather than Western Canadian select, like most of its Canadian peers.

Indeed, that's a great thing, considering where Brent prices are right now. However, investors need to also consider the discount Canadian oil prices consistently receive as well. Parex is positioned as a global oil player but priced as a Canadian energy producer. That's led to what I view as a valuation discrepancy and a potential buying opportunity for investors.

Parex currently carries a free cash flow yield around 28%. That's insanely high for any company, even oil producers. While Parex isn't paying a dividend right now, investors can benefit from impressive capital appreciation as cash flow grows over time. The company's got a solid net cash position, the company faces a weird challenge of figuring out what to do with its cash reserve.

Additionally, Parex has essentially maintained a pristine balance sheet with no debt. Furthermore, this company has the liquidity and ability to buy back 10% of its undervalued shares. Given its strong fundamentals, the company will most likely be pursuing additional deals in Columbia to capitalize on this strong free cash flow. Being debt-free means that it can also find and pursue deals with companies with much higher market capitalization, further improving its long-term prospects.

Bottom line

Being a relatively small producer, the company can ramp up production dramatically. Moreover, due to its location, Parex enjoys premium Brent crude pricing and lower production costs.

I can't find many energy producers with the balance sheet quality of Parex right now. Indeed, this is a wonderful company to consider in a sector with impressive catalysts.

Investors looking to play a turnaround in energy should definitely consider Parex while it is still cheap. Indeed, it may not be cheap for long.

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