3 Reasons to Buy Athabasca Oil

Description

This year is already proving to be a pivotal year for **Athabasca Oil** (TSX:ATH). Last week, the Alberta cabinet gave its final approval for the company to sell its 40% interest in the Dover oil sands project to PetroChina. The sale will bring in $1.3 billion, which represents over $3 per share (Athabasca shares currently trade at just over $8).

Thus the mood was much more calm as Athabasca reported 2013 earnings Wednesday morning. And despite reporting a $40 million loss for the fourth quarter, the company made plenty of progress during the year as it looks to grow production. After these results, there are a few reasons one should consider owning the shares.

Transition from spending to production

Last year, capital expenditures totaled $762 million, but this year the initial capital budget will be set at only $460 million. The budget will be re-evaluated, and likely raised, after Athabasca receives its proceeds from Dover. But the reduction underscores the company's transition from a developer to a producer. This of course decreases the risk of the company relative to last year.

Large reserves

Last year's capital budget was not wasted; Athabasca was able to grow its total reserves by 32%, a number that now stands at 482 million barrels of oil equivalent (boe). For a company that produced 6,700 boe per day last quarter, these reserves will last a very long time. Athabasca's project pipeline will be plenty to keep the company occupied; it will not have to go buy other projects or companies.

Upside from contingent resources

The total net present value of Athabasca's reserves is $1.1 billion, excluding the Dover project. So that represents a little under $3 per share. The company will get another $3 per share from selling its Dover interest. After subtracting out net debt, Athabasca's net reserves are worth about $5.50 per share.

But the real value lies in the company's contingent resources, which are less certain than reserves, but certainly carry plenty of upside. Those resources are worth about $45 per share. So by purchasing Athabasca shares, one has to pay a slight premium for the reserves, but gets tremendous upside from the additional resources.

Other options

Even though Athabasca is slowly shifting from development to production, this is still a growth story, which requires a lot of patience from investors. This kind of story is not uncommon in Canadian energy.

Investors looking for a little more certainty would be better off with one of the larger producers. For example, **Suncor** (TSX:SU)(NYSE:SU) shares are cheaper than the value of its reserves, meaning its resources come for free. And unlike Athabasca, Suncor pays a dividend.

Foolish bottom line

Athabasca is a perfect example of the risk/reward trade-off in Canadian energy. While an investment certainly is risky, it comes with a big payoff under an ideal scenario. And those kinds of stocks tend to trade at a serious discount compared to the companies that offer more certainty.

Risk-tolerant investors certainly should consider owning shares of Athabasca. Then again, those that prefer to avoid risk should probably avoid Canadian energy altogether.

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