



Athabasca Oil Corp. Ready to Make the Jump to the Next Level

Description

Athabasca Oil Corp. ([TSX:ATH](#)) is a mid-cap oil sands and light oil producer based in Calgary that appears to be ready to make the jump to a large-cap producer. The company announced Thursday that it will be buying core operating assets from **Statoil ASA (ADR)** (NYSE:STO) for \$832 million. These operating assets are expected to generate approximately \$100 million of operating income in 2017 alone.

I will take a look at what this acquisition means for Athabasca Oil Corp. and why it might be exactly what the company needs.

Athabasca's operating assets

As an oil exploration and development company, Athabasca's stock price is sensitive to changes in the quality of its prospective assets. As such, Athabasca has made a number of divestitures in the third quarter as well as a recent investment in operating assets that the financial market is viewing as positive for the company. Let's take a deeper look.

Company investments

Athabasca recently purchased Statoil's Corner oil sands project in northern Alberta as well as its Leismer thermal oil sands project, which has been operating for six years for \$435 million in cash, plus an additional \$250 million more should the price of West Texas Intermediate (WTI) oil prices increase above the US\$65 per barrel level moving forward. This deal also includes the issuance of 100 million shares of Athabasca to Statoil—a stake of approximately 20%, which Statoil intends to hold as an investment.

The market is viewing this deal positively as Athabasca has both mitigated its downside risk with oil prices (only paying a portion of the total purchase price should oil prices remain low), while simultaneously acquiring operating assets that are anticipated to produce positive operating revenues in 2017—something the company sorely needs.

For the first nine months of 2016, Athabasca has produced an operating loss of \$51 million—a four-fold

increase over its operating loss of \$12 million for the first nine months of 2015. The anticipated operating income from new assets of \$100 million annually should help the company produce an operating profit in 2017, which should provide the company with the internal funds necessary to finance its capital expenditures in prospective assets, which also hold significant upside.

Company divestitures

Athabasca has divested some of its unproductive and speculative assets in the third quarter of 2016 to fund its recent purchase of operating assets from Statoil. The market has viewed this “core asset swap” very positively; the company’s stock price has appreciated approximately 25% since Wednesday.

The assets previously sold include light oil assets in the Montnay and Duvernay formations in the Greater Kaybob and Greater Placid areas, whereby the company will retain a 30% interest in these assets, hedging the assets’ upside potential.

Athabasca subsequently sold royalty rights for a portion of its oil sands production, contingent again on oil prices. The total proceeds from these transactions exceeds the guaranteed money the company offered Statoil for its assets and is generally viewed as a prudent move, given the company’s current operating position.

Long-term outlook

Should oil prices remain stable and inch upward as expected, Athabasca stands to gain significantly from these transactions. I will be watching Athabasca closely over the coming quarters to see how operating income and overall profitability improves (or stagnates) as the company’s strategic shift unfolds.

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