1 of the Best Energy Stocks for the Most Upside

Description

With US$30 per barrel behind us, and the WTI oil price having broken above US$60 per barrel and sitting at ~$68 per barrel, it seems the sentiment for oil has finally turned from negative to positive. If so, blue-chip energy companies, such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) or even **Canadian Natural Resource Ltd.** (TSX:CNQ)(NYSE:CNQ), which is more leveraged to energy prices, may not be the best names to own for upside.

In about two months, Suncor stock climbed ~20% to ~$49 per share. From a low of ~$38 per share, Canadian Natural stock appreciated ~21% to ~$46 per share in a little over a month. For large-cap companies, those are pretty big moves in a short time. So, there may be little upside for these stocks in the near term.

Suncor and Canadian Natural offer safe yields of ~2.9%, but most investors buying energy stocks aren't looking for safe dividends. They're looking for price appreciation.

What should you focus on when looking for energy stocks?

Now is the perfect time to look for energy stocks, which will increase significantly in value with higher oil prices. **Athabasca Oil Corp.** (TSX:ATH) is the kind of stock you should consider.

Athabasca is an oil-weighted producer that produces light oil and thermal oil. Management estimates that ~55% of the company's operating income will come from light oil this year.

Athabasca estimates it'll produce 38,500 to 41,000 barrels of oil equivalent per day this year. Longer term, the management estimates stable production growth — a compound annual growth rate of ~15% from 2017 through 2020.

Athabasca also estimates that its adjusted funds flow will grow ~22% this year compared to last year to $125 million based on a WTI price of US$60 per barrel. The management also has a focus on margin growth and free cash flow growth.

At the end of 2017, the company had long-term debt of ~$526 million, while it generated $37 million of cash flow in the fourth quarter, which will be ~$148 million when projected over a full year.

Most importantly, the company has low leverage compared to its peers and is trading at an attractive valuation — below 5.5 times its cash flow. Its forward valuation will be even cheaper if the WTI oil price even maintains its current levels.

Investor takeaway

If you're looking for energy stocks with amazing price appreciation potential, consider companies with low leverage and above-average torque to the WTI oil price.

After an amazing run-up of ~59% from a low, Athabasca stock could dip meaningfully if the WTI oil price shows weakness. So, interested investors should consider averaging in to their positions — buy some now and buy more on dips — assuming they are bullish on the oil price for the medium term, say, for the next three years.

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