1 Oil Sands Stock That's Poised to Soar

Description

Oil's latest gyrations and discussions among OPEC members and Russia about boosting oil production has made energy markets extremely jittery. This has caused the North American benchmark West Texas Intermediate (WTI) to slip below US$70 per barrel, thereby triggering an energy stock sell-off over the last week.

Nonetheless, these latest events shouldn't deter investors from bolstering their exposure to energy stocks. One oil sands stock with considerable potential is **Athabasca Oil Corp.** (TSX:ATH), which has soared by 61% since the start of 2018 with signs of further gains ahead.

Now what?

Athabasca owns and operates a range of light as well as heavy oil assets in Alberta, giving it reserves of 982 million barrels of crude. Using a projected WTI price of US$58.50 per barrel in 2018 and US$58.70 in 2019, those reserves have been calculated to have a value of US$3 billion after tax and the application of a 10% discount in accordance with industry methodology. This gives the company a net asset value (NAV) of $5.88 per share, which is more than three times Athabasca's current market value, thus highlighting the considerable upside.

Notably, the value of those reserves was calculated using average estimated WTI prices for 2018 and 2019, which were well below the current spot price of US$67 per barrel, thereby indicating that the value of those reserves will grow.

What makes Athabasca particularly appealing is its mix of high quality light and heavy oil operations. The driller has focused on diversifying its production mix by bolstering the volume of light oil it produces, which has the benefit of boosting earnings because Canadian light oil blends are not as deeply discounted as that of heavy oil blends. After the latest downturn in WTI, the price differential between Canadian heavy crude known as Western Canadian Select (WCS) has widened in recent days.

What makes Athabasca an extremely appealing play on higher oil is that it provides exceptional torque to the price of crude.

You see, 90% of the upstream producer's oil output is weighted to crude and other petroleum liquids, and a large portion of that production is unhedged, allowing Athabasca to fully benefit from rising prices.

Athabasca will benefit further from firmer oil because it has forecast that 2018 oil production will expand by up to 16% year over year, which in an operating environment that sees oil rising in value is an important characteristic. And this, along with higher prices, will give its earnings a healthy bump, even more so when you consider that 2018 light oil production will grow by up 53%, thereby minimizing the impact of the deep discount currently applied to Canadian heavy oil.

Further, the discount applied to WCS is expected to abate as pipeline capacity constraints ease because of the major pipeline companies expanding their networks and crude as rail volumes increase.

One attractive aspect of Athabasca is its solid balance sheet. It has $526 million in long-term debt, which is not repayable until 2022, giving the company plenty of time to build its cash reserves to meet those repayments and finished the first quarter with $129 million in cash.

So what?

Athabasca is one of the best levered plays on higher oil, and once the market gets over its current jitters related to worries that OPEC as well as Russia are poised to boost oil production, oil will probably rise further in value. That will give Athabasca's bottom line — and ultimately its market value – a healthy lift.

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