Are These 2 Canadian Oil Stocks in Trouble?

Description

There's no doubt that operating in the Canadian energy sector has been difficult in recent years. Supply gluts in Alberta forced a regional shutdown, while new oil sands regulations continue to pressure more than a dozen operators.

It won't come as a surprise, then, to learn that two former Canadian all-stars—**Precision Drilling Corp** (TSX:PD)(NYSE:PDS) and **Athabasca Oil Corp** (TSX:ATH)—have fallen by more than 70% over the last five years. More recently, investors have been wondering if bankruptcy is the inevitable scenario for both stocks.

Still, shares of both companies have rallied by more than 100% in previous years, always following the market's realization that insolvency won't be in the near future.

Will Precision Drilling and Athabasca Oil survive? If they do, how much upside could there be?

Precision Drilling Corp

Now worth just $900 million, Precision Drilling once had a market capitalization of $5 billion. The trouble began after oil fell from US$100 per barrel in 2014, averaging just US$55 per barrel over the next five years.

Most oil benchmarks still hover around the US$60 per barrel price point, making Precision Drilling's survival difficult.

Even after its precipitous fall, Precision Drilling remains one of Canada's largest drilling rig contractors. Wherever an oil field is producing volumes, the parent company needs to rent oil field equipment and supplies. In 1984, Precision Drilling was created to meet that demand. Today, it operates more than 200 drilling rigs worldwide.

Providing oilfield services during a bear market is difficult. For example, in 2014, 1,800 oil rigs were active across the U.S., with another 400 located in Canada. In 2016, the market accounted for less than 600 rigs for both countries combined.

Things are changing quickly, however. In 2018, the U.S. averaged 1,000 active rigs while Canada averaged close to 200. After years of cutting costs, Precision Drilling actually anticipates generating free cash flow of $100 million to $150 million in 2019. By 2021, management is predicting the company will pay off as much as $600 million in debt.

Precision Drilling isn't out of the woods yet, but if current oil prices, this stock has a chance to outperform once the market appreciates the results of its multi-year transformation.

Athabasca Oil Corp

As an oil sands producer in Canada, Athabasca Oil stock has been crushed over the last six months. With its market capitalization down to just $500 million, the market is correct for questioning the company's long-term future.

Currently, net debt stands at just $292 million. With $468 million in liquidity, bankruptcy isn't right around the corner, but major concerns remain.

While management notes that its reserve base could be worth up to $8.94 per share (a 900% increase over current levels), Athabasca Oil simply doesn't control its own future.

Located in Alberta, the company is structurally limited by the lack of pipeline and refining infrastructure necessary to process and export its product. Due to supply gluts in 2018, local oil prices for the company were trading at a 50% discount or more to U.S. prices. Alberta is rushing to get more crude-by-rail capacity online, but long term, it's difficult to know what pricing differentials will be.

Stick with this stock

Athabasca Oil stock has real upside, but if critical infrastructure can't be built quickly over the next few years, its theoretical value will never be realized. Precision Drilling, meanwhile, can directly benefit from rising oil prices across a variety of regions and countries.

If you want to bet on rising oil prices by buying a beaten-down value stock, Precision Drilling looks like the better deal.

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rvanzo