Investors: This 1 Stock Just Hit an All-Time Low: Time to Buy?

Description

Athabasca (TSX:ATH) is an upstream exploration and production company that focuses on developing light and thermal oil resource plays in the Western Canadian Sedimentary Basin in Alberta, Canada.

Its share price has decreased 56% year to date, which is largely due to decreased revenues in its petroleum and natural gas sales. Natural gas prices are tumbling in recent years and currently trade at USD $2.70 per MMBtu (million British thermal units) down from its 52-week high of USD $4.84 per MMBtu.

An interpretation of the numbers

For the six months ended June 30, 2019, the company reports an unimpressive balance sheet with negative retained earnings of $1.1 billion due to many years of net losses. This is an improvement from December 31, 2018 whereby retained earnings were $(1.4) billion.

The increase in retained earnings is driven by the sale of Athabasca's Leismer pipelines and Cheecham storage terminal for $265 million, of which $222 million was recognized as a gain. Even without this, however, the company managed to end the period with $41 million in net income.

As mentioned above, the decrease in natural gas prices have adversely affected the company's profitability. Despite this, the company's management team does a good job of dealing with this, as the decrease in revenues of $2 million is offset by a reduction in total expenses by $103 million. This is good news for investors, as it indicates that management is fiscally responsible at a time when it is most needed.

The company's cash flow statement indicates strong cash flow from operations which are positive year-over-year. This is complemented by a reduction in PP&E spending which can be good or bad.

On one hand, it may indicate fiscal responsibility on the part of management, but could also indicate less demand in the future, which hurts revenues. Investors will need to look into PP&E spending and the accompanying MD&A to determine the cause of the reduction.

But wait, there's more…

Looking at the company's notes highlights a couple of important items.

First, the company received notice of a CRA reassessment in May 2018 regarding its 2012 taxation year. The company believes that it will be successful in appealing the reassessment and has not recognized any provisions in its consolidated financial statements.

Second, investors will be happy to find out that Athabasca has approximately $3.1 billion in tax pool (of which $2 billion is in the form of non-capital losses and exploration tax pools) that can be used as deduction against future income.

Finally, the sale of the Lesimer pipeline and Cheecham storage terminal is a win for investors. Of the $265 million received, only $39.9 million was de-recognized from PP&E, which resulted in a solid ROI of 564%.

Foolish takeaway

Investors seeking an upstream oil and gas company should consider buying shares of Athabasca. Despite its negative retained earnings, the management team is fiscally responsible, as is evidenced by its reduction in total expenses by $103 million and the timing of its pipeline and storage terminal sale, resulting in an ROI of 564%.

The company also has $3.1 billion in its tax pools, which means fewer taxes on future income and more value for shareholders.

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