



ALERT: Double Your Money With This Cheap Value Stock

Description

Athabasca Oil ([TSX:ATH](#)) is a liquids weighted intermediate producer with exposure to Canada's [most active resource plays](#) (Montney, Duvernay, Oil Sands). The company offers investors excellent exposure to improving oil prices and is focused on maximizing profitability through prudent capital spending.

Athabasca Oil's light oil and thermal oil operations have [significant potential](#) to be very valuable. The company's light oil operations at Placid and Duvernay are rich in liquids and designed to produce high margin returns. In comparison, the company's thermal oil business is expected to continue to experience a low decline in production rates.

The company has lost money for investors over the last few years, giving rise to a negative price to earnings ratio. However, Athabasca Oil's valuation is in deep value territory with a price to book ratio of 0.17 and market capitalization of 116 million. Debt is high at Athabasca Oil as evidenced by a debt to equity ratio of just 0.96. Performance metrics are below average with an operating margin of (12.40)% and a return on equity of (65.88)%.

The company has undertaken an operational strategy that is intended to ensure that light oil and thermal oil businesses are financially robust and competitive, with exceptional future growth potential. Athabasca Oil's focus on generating strong margins and free cash flow to maximize shareholder value has served it well during the recent economic crisis caused by the novel coronavirus.

Low prices have seriously hurt the company in recent times. Despite this, Athabasca Oil has emphasized financial sustainability, maintained strong liquidity and adopted a flexible capital allocation strategy. The company has cut expenses significantly and is doing a good job navigating uncertain times.

Athabasca Oil produced about 40,000 barrels of oil per day with a 86% weighting in liquids. Operational performance has been recently strong due to a significantly improved North American oilpricing environment. Positive contributions from both light oil and thermal oil have also helped financialresults.

Athabasca Oil has also been selling assets aggressively to reduce debt and to strengthen the company's balance sheet. The company recently sold Leismer infrastructure assets for \$265 million of cash proceeds. These deleveraging efforts have been successful, resulting in a strong balance sheet position with funding capacity of \$460 million including \$270 million of cash and cash equivalents.

Liquidity is particularly strong at Athabasca Oil. The company has over \$125 million of available credit and letter of credit facilities and a \$60.5 million of undiscounted capital carry balance. Athabasca Oil's light oil division has seen a significant ramp-up in production with an operating netback of \$30 per barrel of oil equivalent driven by a high liquids weighting of 54% and low lifting costs.

The company has been prudently allocating capital in recent times. Six wells were drilled, eight wells were completed and four wells were placed into production in the most recent quarter. In addition, the company's thermal oil metrics were in-line with government mandated curtailments. Recent operations have had a tailwind due to strong bitumen prices.

At just 23 cents a share, long-term investors in Athabasca Oil are likely to be richly rewarded.

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