



1 Top Canadian Energy Stock to Buy in Q4

Description

A rather overlooked Canadian energy stock, **Athabasca Oil** ([TSX:ATH](#)) is a company I've been following for some time. That's because this company is a more leveraged option for investors bullish on the potential for commodities to run.

Most know that I've been calling for a bull market in commodities for a long time. Indeed, the macroeconomic environment appears to continue to point toward a strong energy market.

However, companies like Athabasca have proven to be rather volatile over time. Here's why I think investors looking to add a bit more risk in the energy sector may want to consider this Canadian energy stock right now.

Solid outlook for this energy stock

Sticking with the broader energy-related thesis for a moment, Athabasca could be an energy stock that falls in the sweet spot for many investors.

This is a company that has turned its focus to paying off its debt load or at least refinancing its obligations further out. Like other levered oil companies, Athabasca has seen its share price plummet from its previous highs during commodity price-related downturns. Thus, it's perhaps unsurprising to see this stock trade as low as it did at the trough of the pandemic.

Investors who bought near the bottom could have paid around \$0.10 per share of ATH. Today, that's worth roughly \$1.25 at the time of writing.

Much of this improved momentum is due to a sharp V-shaped recovery in energy prices. While oil has dipped below \$80 per barrel recently, the market appears to be factoring in oil at around \$60 per barrel in the coming months. For those who think the macro outlook for commodities is likely to remain stronger for longer, Athabasca could be a great pick.

This company's free cash flows have increased to approximately \$60 million per year. This means the

company could pay off its debt in its entirety in 10 years. However, if energy prices remain elevated and continue higher, this payoff period could be significantly reduced.

Right now, I think Athabasca represents one of the riskier, yet higher-upside options in the energy sector. Accordingly, this is a stock that's on my watch list now.

Bottom line

Athabasca is a company that has certainly been moving in the right direction. Several transactions earlier this year brought approximately \$100 million in liquidity into the company. This liquidity combined with a strong macro outlook, could make ATH stock worth considering.

As with other energy stocks, risks do exist. It's possible that as this economic recovery pans out, demand turns out to be less robust over the medium term. Time will tell; however, investors should remember to allocate an appropriate amount of capital to higher-risk positions relative to their risk tolerance level.

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