Athabasca Oil Up 80%: Risky Buy or Still a Deal?

Description

Athabasca Oil (TSX:ATH) has had quite a year, with shares up 81% year-to-date at the time of rising. However, those shares have dropped after climbing about 180% before the recent market correction.

So today it's worth considering: Is Athabasca Oil a deal after this drop? Or a risky buy in this high-priced oil environment?

The Bull case

Shares of Athabasca Oil began to climb at the beginning of the year thanks to the improving price of light and heavy oil. The company explores, develops and produces these oils, and is now ahead of the plan to repay its debts. This has allowed the energy company to speed up its pace in terms of making a "strategic shift" in 2023, analysts have stated.

The company closed out 2021 with strong operating results and healthy reserves. The focus on repaying its debts has been especially interesting to analysts and investors alike. It can now start to take advantage of the high-priced oil environment.

Meanwhile, the company has stated it plans to use "all of its near-term free cash flow to reduce its term debt" so that it can continue to be on the **TSX**. Once debt is repaid, it then hopes to create dividends and share buybacks for investors.

The Bear case

It's important to note that Athabasca Oil still does have debt to repay, and that while it's been upgraded it remains fairly risky. The improvement has moved the company closer to "sector perform" from "speculative risk" on many measures. And while the share price has been upgraded, it's still below 52-week highs.

Furthermore, analyst updates haven't come in lately. Instead, these updates came at the peak of oil and gas prices, as late as May. This didn't include the high price environment that occurred in June, and certainly hasn't occurred in July with a return to some kind of normalcy.

Long-term, it's unclear what investors should think about Athabasca Oil. While oil and gas will remain part of our immediate future, there is a shift away from it. So a company such as this may become obsolete in the not-too-distant future.

Buy or Sell?

I'm not one to recommend selling in this market downturn regardless of the stock. Any stock is likely to make a recovery, given that most have fallen quite heavily. So it's likely you can at least sell for a bit more if you wait.

However, when it comes to Athabasca Oil I would look to sell sooner as opposed to later. Yes, the company is looking to improve its debt position and start giving back to shareholders. But it also remains a fairly high-risk stock. Albeit with strong fundamentals right now. It still offers a very low share price that's subject to major fluctuations in the near term.

Motley Fool investors can pick up Athabasca Oil trading at 3.3 times earnings and 1.4 times book value. And although there are improvements, the company has seen an incredible drop from the heights 10 years ago. Shares are down 83% in the last decade.

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Date
2025/07/04

Date Created
2022/07/22
Author
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