

Markets

Penny-Stock Bet on Athabasca Yields 6,500% Gain for Ninepoint

By Monique Mulima and Geoffrey Morgan
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When Ninepoint Partners LP bought a nearly 10% stake in Athabasca Oil Corp. in early 2021, crude was trading around \$50 a barrel and shares of the overleveraged crude producer had plunged into penny-stock territory.

The market was worried about Athabasca's ability to refinance its debt, and a large Norwegian investor wanted out. Ninepoint took a big risk and acquired a block of shares for 18 Canadian cents each.

It turned out to be a transformative bet for the C\$1.9 billion (\$1.3 billion) Ninepoint Energy Fund. Canadian oil major Cenovus Energy Inc. has agreed to buy Athabasca for C\$12 a share in cash and stock, more than 6,500% above the fund's purchase price.

"That's going to be one of the highlights of my career," said Eric Nuttall, senior portfolio manager with Ninepoint. He believes he's unlikely to find another case where he can buy such a significant stake in a company from a highly motivated foreign seller.

Ninepoint bought 53 million Athabasca shares in January 2021 from Equinor ASA, as part of the Norwegian's firm exit from the Canadian oil sands. The Toronto-based fund manager still owns around 13 million shares. It's also a shareholder in Cenovus, and Nuttall expects the combined company to make up around 18% of his fund.

"I'm equally happy because I think Athabasca is getting fair to full value for the company in who they are in terms of resource base, their ability to capitalize, booked reserves, all of these things," Nuttall said. "But then you take Cenovus,



The Athabasca oil sands near Fort McMurray, Alberta, Canada, in 2018. Photographer: Ben Nelms/Bloomberg

which has the financial and technical capabilities to accelerate the pace of development and most likely do it probably even better."

"So it truly is one of these win-wins."

The Ninepoint fund has returned more than 33% compounded annually over the five-year period ended Aug. 31.

The deal between Cenovus and Athabasca comes after a major rally in oil stocks this year, partly due to elevated oil prices as a result of the Middle East war. The S&P/TSX Energy gauge is up more than 27% this year, by far the best-performing group in

Canada. Cenovus had risen 99% so far this year through Friday's close, while Athabasca shares were up 51%.

Canadian oil and gas stocks have also gotten a boost this year from increased federal and provincial government support for energy development. Prime Minister Mark Carney designated a new Canadian oil pipeline a project of "national interest" on Thursday, expediting regulatory approval.

"I haven't been this encouraged for many, many years in terms of how positive the investment environment is for Canadian energy," Nuttall said.