



Cenovus Energy Inc. Is Severely Undervalued

Description

To say that **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) shares are undervalued would be a vast understatement. The stock has taken a beating over the last few years thanks to some poorly timed decisions and the company's ridiculously slow ability to adapt following to the rout in oil prices experienced in 2014.

Questionable decisions exacerbated correction

Shares of Cenovus are down ~65% from their peak in 2014. The oil crash was a huge reason for the downfall, but it was exacerbated by the company's decision to sacrifice the company's near-term financial health for an expensive acquisition of assets from **ConocoPhillips**. Oil prices rallied, but shares of Cenovus continued to nosedive as investors were extremely disappointed in the company's aggressive move to raise debt to finance an acquisition — the value and timing of which was suspect.

The management team at Cenovus has done an incredible job of selling assets to pay back debt. Two of the four assets were sold at a higher price than what many pundits estimated, which is a something to be positive about, especially since it appears that oil prices look to have stabilized in the \$50 range.

If Cenovus can continue to offload assets at or above their expected value, then I think CVE has much higher to run from here, assuming that oil prices remain above the mid \$40 levels.

Cenovus made mistakes, but it's paid for it!

There's no question that Cenovus was ill prepared for the rout in oil prices. It got caught with its pants down, and it's evident in the stock price, which continues to fall into the abyss, despite a slight recovery in oil prices.

That being said, if you decide to pick up shares at current levels, I believe you'll getting a fantastic deal if you intend to hang on to them for at least five years. It appears that Cenovus has finally better positioned itself for a rally along with oil prices. Despite being in better shape today, shares are still beaten up, and many investors may have lost faith in the management team as well as the company.

Bottom line

I think the general public is too bearish on Cenovus. Sure, there are many uncertainties still remaining, but with a 0.8 price-to-book multiple, I think shares are a huge bargain if you're a long-term investor.

I'm not going to attempt to call a bottom in the stock, but if you're interested in a bargain play on a promising turnaround candidate, you should buy a small chunk now and on any further dips that may happen down the road.

Stay smart. Stay hungry. Stay Foolish.

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