



Oil Prices Racing to 2.5-Year High: Time to Buy Cenovus Energy Inc. Stock?

Description

Oil bulls have many reasons to cheer these days. Oil prices have not only stabilized, but they also have strong backing from the top oil-producing nations that have agreed to limit their supply through the end of 2018.

Last week, U.S. West Texas Intermediate crude prices rocketed to \$58.38, bringing the benchmark closer to the \$59.05-a-barrel mark — its peak for this year and the highest level since July 2015.

International benchmark Brent crude traded at \$63.74 — not far off last month's high of \$64.65, which marked the best intraday level since June 2015.

If you are looking to benefit from this strength and are willing to revisit the hard-hit oil stocks, then there are a plenty of opportunities to find value.

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is one my favourite among the cheap oil stocks due to the company's huge upside potential if oil prices continue to climb or even stabilize around these levels. Here is why.

Asset sales

Cenovus's future growth is very much tied with the successful sale of its assets to cut its debt load, which the company accumulated after buying \$17.7 billion assets from its oil sands partner, **ConocoPhillips**.

This highly leveraged transaction sent shock waves among the company's investor base on concerns that the undertaking could derail the company's expansion plans if oil prices remained depressed.

But improving oil prices have changed the game in Cenovus's favour, proving many doomsayers wrong. In its efforts to reduce its debt, the company has so far raised \$2.8 billion from asset sales, taking advantage of better prices.

These sales have brought the company closer to achieving its \$4-5 billion in divestitures this year; it is

still marketing its Weyburn operation in Saskatchewan.

Should you buy Cenovus stock?

Cenovus made a \$0.237-a-share net profit in the second quarter, beating analysts' forecasts of \$0.02 profit a share. The company also reported a 128% increase in its free cash flows to \$465 million during the same period, helped by a 65% boost in its output.

Reflecting the improved merger and acquisition activity in the energy patch and the company's success to improve the profitability, Cenovus stock has jumped 30% in the past three months. It's trading at \$12.87 at the time of writing.

Though this price level is still far below (about 60% lower) than its five-year high, the company is well on track to regain its lost glory. For investors with a five-year time horizon, I think Cenovus stock offers [great long-term value](#).

CATEGORY

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