1 of Canada's Cheapest Energy Stocks Could Be Ready to Rocket Higher Over the Next Few Years

Description

If you're a deep-value investor, Canada's beaten-up energy sector is a great place to look.

Although oil prices have rallied to the US$60 levels, many firms operating in Alberta's oil patch have yet to show any signs of a rebound. At the time of writing, Western Canadian Select (WCS) is trading at a ~30% discount to West Texas Intermediate (WTI) thanks to pipeline and rail bottlenecks.

If you look at the long-term charts of many of Canada's most beaten-up oil stocks, it looks like no progress has been made; however, this couldn't be further from the truth. Many firms are in much better shape operationally than they were a few years ago, despite shares being near all-time lows.

At this point, nothing but pessimism is baked in to shares, but there are signs of hope. Many pundits believe that the price gap between WCS and WTI will shrink in 2018, as more Canadian heavy crude is transported to U.S. refineries via rail. If that's the case, some of Canada's hardest-hit names could be due for a pop. It appears that a bottom may finally be close; however, contrarians jumping in today should expect more stomach-churning volatility, as it's very likely that prices will continue to post triple-digit movements in either direction over the short to medium term, even though the sentiment is slowly improving.

Consider **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), a severely undervalued stock that could soar once WCS makes a move higher.

The company has been investing in innovative new extraction methods, including a steam-assisted solvent-aided process which aims to cut down on both costs and greenhouse gas emissions. Given that oil sand operations are ridiculously expensive and difficult to profit on, such cost savings are absolutely essential if such firms are to thrive (or survive) over the long haul.

I'm a huge fan of Cenovus's extraction tech, as it could allow Cenovus to be an incredibly efficient operator down the road; however, investors are going to need to be patient and ride out the roller-coaster ride for now, since the promising new extraction tech and the implied cost savings could be over a year away.

Bottom line

Cenovus has disappointed investors for many years, but it's been laying a great foundation for itself. Over the next five years, I believe Cenovus will be a much lower cost operator, but don't expect the stock to be depressed like it is today, as the price of admission will likely be a lot higher.

Shares currently trade at a mere 4.17 trailing price-to-earnings multiple, a 0.8 price-to-book multiple, a 0.7 price-to-sales multiple, and a 5.4 price-to-cash flow multiple. All are substantially lower than the company's five-year historical average multiples. If you can withstand the volatility and hang on for the long-term ride, I'd buy and hold Cenovus today, as the stock is far too cheap when you consider the company's promising long-term prospects.

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