



The Biggest Long-Term Opportunity May Lie in Canada's Unloved Oil Sands

Description

It feels like everyone hates the oil sands these days. From Alberta's own politicians to foreign and domestic investors. The oil sands are incredibly expensive to operate, and they've been stamped with a stigma of being notoriously filthy for the environment. Many extremely bearish analysts have previously noted the possibility of firms throwing in the towel on the oil sands altogether in the future. Many foreign investors have lost all their confidence in the oil sands, and several domestic pundits, like Kevin O'Leary, are also turned off by the thought of investing in Canada's unattractive energy industry.

Carbon taxes, transportation bottlenecks, global crude oversupply, and higher-than-average operating costs are enough reasons for many to dispose of anything oil related. There's a gigantic cloud of uncertainty surrounding the Albertan oil patch, and investors despise uncertainty, which means that for many oil operators (WCS-exposed firms in particular), things couldn't possibly get worse from here. Or could it?

The perfect storm of headwinds has sent shares near all-time lows, but unlike the doom-and-gloom sentiment, I think the severely beaten-up oil sands could bring forth an opportunity of a lifetime for contrarian investors who are willing to stay the course over the next decade. Long-term investing is how the real money is made, yet very few investors have the discipline or the patience to hang on to a stock for more than a few years or even a few months!

There's a tonne of news on the media that's encouraging you to take action, when in reality, you'd probably be better off sticking the course with your original investment thesis. Patience is a nearly impossible trait for beginners to learn these days, but for those who are able, the oil sands could be an opportunity of a lifetime.

Why?

Oil sands are expensive, dirty projects, and the economics call for pretty high breakeven costs, especially as regulators bring carbon taxes into the mix at a time when the industry is in turmoil. Talk about kicking them while they're down.

Although the near-term outlook for oil firms like **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) and **Baytex Energy Corp.**

(TSX:BTE)(NYSE:BTE) look bleak, I think the [longer-term prospects are extremely positive](#), especially when you consider some of the more bullish pundits are calling for a return to US\$100 oil.

Cenovus is on the cutting edge of oil-extraction tech with the solvent-aided process, which could lead to huge cost savings in a few years from now. Baytex is also steadily moving towards [lower-cost production growth](#), as it capitalizes on its vast acres of untouched reserves. Both firms are chipping away at debt and have massive upside over the long term (five years out).

In addition, both firms could be in for some near-term relief as WCS gets back on the road to recovery thanks to rising crude-by-rail shipments, which should gradually reduce the heavy crude transportation bottlenecks.

Bottom line

If you're a long-term investor who isn't fazed by near-term stock price fluctuations, both Cenovus and Baytex are compelling options for deep-value contrarian investors. Cenovus and Baytex trade at 0.8 and 0.5 price-to-book multiples, respectively. That's some huge value for those who are willing to step up to the plate and make contrarian swing for the fences. These stocks are not without a great deal of risk, however, so make sure you're not betting the farm on these troubled energy stocks, as there are still many additional headwinds that could continue mount at these depressed levels.

Stay hungry. Stay Foolish.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

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