If US$100+ Happens, This Energy Stock Could Be a Multi-Bagger

Description

After many years in the doghouse, oil's unexpected rally has prompted reignited interest in many of Canada's unloved energy stocks. Although oil prices have rebounded in a big way, the stocks of many Canadian oil producers have yet to bounce back at a similar magnitude, leaving ample upside potential for energy investors as energy stocks look to catch up to the new higher price of oil that's currently just south of US$70 at the time of writing.

With energy stocks outperforming marijuana stocks in recent months, it's clear that the next "sexy play" could be energy stocks as speculators start piling onto the bandwagon as oil continues inching toward the US$100 level.

There's no telling how much higher West Texas Intermediate (WTI) prices will rise from here. Donald Trump clearly isn't the fan of higher oil prices, nor does he approve of the OPEC cartel. Given this, he could certainly make moves to derail oil's rally right now.

On the other end of the spectrum, Pierre Andurand, a bullish hedge fund manager, noted that oil at US$300 a barrel is "not impossible" within the next few years should oil prices not climb fast enough. Andurand believes that the unwillingness of firms to turn on the taps in new production growth may result in the largest supply shock ever as demand creeps up, catching everybody off-guard.

Farfetched as it sounds, US$300 oil isn't impossible, although investors would have laughed at that figure a few months ago.

The reluctance of oil firms to invest in new growth initiatives could certainly fuel a massive rally over the medium-term, especially if Donald Trump stepped in to try to bring down what he deems an "artificially high" price.

Although renewable energy firms are picking up steam, it's important to remember that we're not close to an environment in which the planet can completely rely on sustainable sources of energy. As such, demand could certainly pick up and co-exist in an era in which renewables continue to gradually reduce dependence on fossil fuels.

Personally, I think US$300 oil is as ridiculous as it sounds, but even if oil were to break the US$100 mark, it would be more than enough for many oil sands producers to turn on the taps on new projects and become substantially more profitable as the operating environment becomes more economical. If prices were to stabilize at the US$100 levels, **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) could easily become a multi-bagger over the next five years, even if the wide WCS-to-WTI discount persists.

With its promising assets and new cost-effective extraction methods in the works, I think earnings could really rocket higher under the right industry conditions.

At US$100 oil, Cenovus would be able to fire on all cylinders with its new growth operations; as its costs gradually decrease, the company would really be in great shape to rebound — potentially back to all-time highs should a higher oil price environment be here to stay.

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