



Why Cenovus Energy Inc. Stock Could Soar

Description

I've been [pounding the table](#) on **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) for quite some time. I believe it's one of the most attractively valued oil stocks on the entire TSX, and while the company has been plagued by poorly timed moves and sub-par decisions, I think Cenovus has laid out the foundation for future success; however, the general public has lost patience with the stock over the years in spite of efforts to improve the future economics of its oil sands operations.

With this in mind, the stock remains severely undervalued despite rallying nearly 50% from its February trough. The stock is still down over 66% from its all-time highs, but the massive discount may not last, especially if the price of oil continues to rally higher.

Back on January 5, I said that Cenovus was one of the most undervalued stocks on the entire TSX. Since publication, the stock tanked, but quickly rallied and is now looking to break past 52-week highs. With remarkable catalysts like innovative new extraction techniques, I found it quite absurd that Cenovus was as cheap as it was and didn't think the stock would remain so low for a prolonged period.

There's no question that investors lost their patience with the company when it decided to scoop up \$17.7 billion in oil sands assets from **ConocoPhillips**, suffering a major blow to an already stressed balance sheet. Since the deal, however, various asset sales have been made and the balance sheet is now in strong shape even though the long-term chart may indicate dire financial health.

Why you should buy shares right now

In addition to strength in the price of oil, the Western Canadian Select (WCS) discount to West Texas Intermediate (WTI) may gradually begin to erode further as bottlenecks subside. Rails stand to provide near-term relief while the pipelines start flowing again.

Moreover, Cenovus has been an innovator when it comes to economical and environmentally friendly new means of oil sands extraction. The solvent-aided process has the ability to drive down costs and ensure break-even operating costs such that come the next oil plunge, Cenovus shares will be more robust like those of its larger integrated peers, some of which are poised to break past highs prior to the 2014 oil shock.

Insiders are eating their own cooking

Over the last year, insiders have bought nearly \$5 million worth of Cenovus stock, a huge vote of confidence that retail investors shouldn't overlook. With a repaired balance sheet, an innovation extraction process in the works, and a ton of promising assets, at 0.9 times book value, Cenovus shares remain one of the biggest steals on the entire TSX for those with a long-term investment horizon.

Bottom line

I find it hard to believe that shares w

ill be kept this low for a prolonged period, even if oil prices begin to retreat. On the [flip side](#), should oil continue to rally or remain stable at the US\$70 levels, I suspect that Cenovus stock could catch up to higher oil prices with a major rally of its own.

Cenovus shares are trading at levels seen a year ago when oil was trading between the US\$45-50 range. Today, with oil trading at US\$71.23 at the time of writing, it's clear to me that the stock is misunderstood and could be ripe to make up for lost time.

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Author

joefrenette

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