# Forget Suncor Energy Inc.! Here's Another Oil Stock That's Cheaper With More Upside!

## Description

All of a sudden, oil stocks have become hot again through the eyes of investors following WTI's surge past the US$70 mark. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), one of the highest-quality integrated players in Alberta's oil patch, has soared ~30% since the beginning of March.



Although the stock is considered by many to be one of the safest ways to bet on the oil sands, I think shares offer very little in terms of value after the recent run and could stand to hurt investors over the short term who are planning to jump in at $50 levels.

There's no question that Suncor deserves a premium over its peers in the space. The pristine condition of the balance sheet, and its stable cash flow stream from integrated operations has allowed Suncor to not only weather the storm in a low oil price environment, but it has allowed management the opportunity to pull the trigger on financially distressed peers at a discount. That's a nice hedge against lower oil prices!

With a tonne of production assets that can keep the company busy for decades, one can only expect Suncor to move from hibernation mode into growth mode if +US$70 WTI becomes the new normal. Oil sands projects are incredibly expensive, and in a low oil price environment, many of these projects are better left alone, especially when you consider that Suncor is a bit behind the eight ball versus some peers with regards to cutting-edge, low-cost extraction methods.

If you're bullish on oil prices, Suncor remains a great bet over the long term; however, I think **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) offers investors far more reward relative to the risks taken on.

Unlike Suncor, Cenovus was caught with its pants down during the rout in oil prices a few years ago, and as a result, shares collapsed ~75% from the peak in 2014 to the trough in 2017. The balance sheet was not in great shape after scooping up assets from **ConocoPhillips** for $17.7 billion, but after a series of non-core asset sales, Cenovus's balance sheet is not only repaired, but it actually looks in strong, despite shares still being down ~60% from 2014 highs.

Further, Cenovus has been experimenting with innovative extraction technologies to drive down long-term costs of operation while reducing its greenhouse gas footprint. The steam-assisted gravity drainage (SAGD) process has been used in conjunction with various other associated technologies, which may stand to gradually improve the economics behind its operations over time.

Cenovus appears to be a pioneer in the oil sands and could potentially possess some of the lowest breakeven costs of operation in a few years down the road should new extraction processes continue to show promise.

**Bottom line**

Cenovus may not have Suncor's premium integrated assets, but over the next few years, I believe Cenovus's new extraction methods will pave the way for lower breakeven prices.

Cenovus shares trade at a 0.9 P/B, a 0.9 P/S, and a 6.5 P/CF, all of which are lower than the company's five-year historical average multiples. Given that Cenovus has strengthened its balance sheet through non-core asset sales, and the ridiculously low multiple that investors will pay today, I think Cenovus is a much better bet than Suncor for those with a time horizon of five years or more.

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