



TFSA Value Investors: This Severely Undervalued Oil Stock Could Take Off!

Description

There's ample value out there on the TSX, and if you know where to look, you can spot the stocks that trade at profound discounts to the intrinsic value. Of course, you'll need to have the discipline, patience, and a long-term time horizon in order to reap the real rewards.

Without further ado, here's a dirt-cheap stock that appears to have a very favourable risk/reward trade-off at this point:

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is a company that's made a handful of poorly timed decisions (overpaying for untimely acquisitions) in the past. As you can tell from the long-term chart, the stock has paid for it and then some with shares down well over 70% from all-time highs.

There's no question that the name has lost credibility with the public over the past few years. A substantial amount of investor wealth was wiped out during this period, after all. Instead of shunning the stock, however, investors ought to focus on where the company is headed, not where it's been, because that's where the real opportunity lies.

The oil sands are notorious for being dirty and expensive.

With West Texas Intermediate (WTI) below US\$55, it was uneconomical for Cenovus to turn on the taps to new projects. As oil prices can remain above the US\$70 levels, however, you can count on Cenovus to catch up oil's rally with some degree of lag.

Unless you're proficient at spotting macroeconomic trends, betting on [oil's continued rally](#) isn't a good enough investment thesis to justify the purchase of an extremely oil-sensitive name like Cenovus, which has less to fall back on versus its integrated peers.

Not just a play on higher oil prices

Of course, Cenovus will fair much better if oil prices continue to climb higher, but I don't believe US\$100 oil is at needed for the stock to be a profoundly profitable investment over the next few years. As long as oil prices average US\$60 or higher over the next few years, I believe Cenovus will offer

above-average returns to investors.

What many investors may be overlooking is that the company is poised to become a more economical oil sands operator moving forward as it continues to leverage innovative new [solvent-aided extraction techniques](#). Many analysts believe that the new process of extraction could allow Cenovus to emerge as one of the lowest-cost operators in the oil sands, with breakeven prices projected falling to US\$45 WTI.

The stock currently trades at a 0.9 P/B, a 0.9 P/S, and a 6.4 P/CF, all of which are lower than both the company's five-year historical average multiples and the industry average. The way I see it, Cenovus has the bar set ridiculously low, and with a relative margin of safety, I think the name is a must-have for value investors seeking long-term appreciation.

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