This Canadian Oil Stock Could Realistically Double

Description

Warren Buffett loves buying stocks of companies that are trading at substantial discounts to their intrinsic value. It's a simple, but powerful concept that many of his value investor disciples follow. As simple as the strategy may seem on paper, however, it's notoriously difficult to confirm whether or not a stock is priced at a discount to its intrinsic value.

You could certainly evaluate a stock based on its price-to-book (P/B) or price-to-earnings (P/E) multiple to get a gauge of whether a company is trading lower than where it should be. Without a firm understanding of the industry and a company's peers, however, it's hard to determine whether or not a company is positioned to increase its value over the course of the next few years.

Consider **Cenovus Energy** (TSX:CVE)(NYSE:CVE), a dirt-cheap energy company that owns some prime oil sands assets and has been working with next-generation solvent-aided extraction processes (SAP) that aim to better improve the economics of oil sands projects.

It's not a mystery as to why so many foreign investors have thrown in the towel on Canada's energy sector. Not only are fossil fuels like oil being slowly phased out in favour of renewable sources of energy, but Alberta's oil sands operations are ridiculously uneconomical when compared to the likes of conventional oil operations.

The oil sands are filthy and they're notoriously expensive to start. In most cases, most non-integrated oil producers are at the mercy of exogenous factors that influence the price of oil. Also, Western Canadian Select (WCS) has traded at a hefty discount to West Texas Intermediate (WTI) of late thanks in part to a nasty transportation bottleneck that's not doing the oil sands operators any favours.

Simply put, it's hard to find a reason why anyone would want to invest in Alberta's beaten-up oil patch, especially when federal regulations and oil prices are a question mark. The economics of oil sands operations aren't great, and right off the bat, they're looking to be at a considerable disadvantage to their more conventional peers.

With Cenovus's promising SAP extraction techniques, though, break-even costs could stand to be lowered well below US$50 WTI over the next three years. That could make Cenovus one of the more economical oil sands operators out there, so if you've got a long-term horizon, Cenovus definitely looks like it could become a profitable rebound candidate for your portfolio as the company continues to incorporate SAP extraction techniques – an innovative development that could give the company an advantage over its peers in the space come three years from now.

The stock trades at a 0.8 P/B and a 0.7 P/S, both of which are considerably lower than the company's five-year historical average multiples of 1.7, and 1.1, respectively. If you're looking for a stock to buy, hold and forget about. Cenovus seems attractive given the absurdly low multiple that I believe is severely discounted by Mr. Market.

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Author
joefrenette