These 2 Top Oil Sands Stocks Look Ready for an Explosive Rebound

Description

The discount on WCS (Western Canadian Select) relative to WTI (West Texas Intermediate) continues to grow to record levels courtesy of bottlenecked pipelines that can't seem to get meaningful relief from the rails. Canadian oil sands producers continue to turn on the taps, but with a growing queue to get the extracted heavy oil to U.S. refineries, it appears that the WCS discount isn't going away anytime soon.

To add even more salt in the wound of Alberta's already troubled oil patch, U.S. refineries are slated to undergo maintenance over the next six months according to a recent report issued by Andrew Botterill of Delloite.

In the report, Botterill expects periods where refineries will be completely offline and unavailable to refine the massive amounts of heavy oil that'll be coming in.

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"The volatility that we've seen in the last three months, I totally expect to see more of it in the next three months. I fully expect this kind of volatility in 2019 as well." said Botterill.

That's the last thing Canadian energy investors want to hear, especially when you consider the growing glut of heavy oil that's going to overwhelm the available supply capacity of various players in Alberta's oil patch.

While the weakness in WCS is expected to continue to feel pressure over the medium-term, I do believe it's a good idea for longer-term investors to begin gradually nibbling away at some of Canada's most troubled oil sands stocks.

Consider **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **Husky Energy** (TSX:HSE), two oil sands operators with considerable long-term upside. As the WCS discount continues to grow, we could see shares of both companies pullback, providing a timely opportunity for long-term thinkers to get in on a position at a discount.

Cenovus is an oil sands operator with promising extraction technologies (solvent-aided process) that could lower breakeven costs by a significant margin over the next few years. Management made untimely mistakes before the oil collapse, but in the years since the catastrophe, the company has since improved the health of its balance sheet while improving operations in a number of different ways.

Husky is an integrated energy company with a relatively stable operating cash flow stream. The company has a solid balance sheet and massive long-term growth from its portfolio of promising heavy oil projects that will be switched on as the WCS discount gradually fades.

More recently, Husky is getting hostile with its bid to acquire **MEG Energy**, an oil sands producer that's been battered and would do a lot better under the stewardship of Husky.

Both Cenovus and Husky are beaten-up oil sands plays, but neither is at a high risk of insolvency. As

the WCS continues to swell, I'd look to initiate a position in either one of these contrarian gems, as they could explode upwards once the Canadian heavy crude swamp is finally drained, possibly over the course of the next five years.

Foolish takeaway

The WCS discount is at a record level. While things may get worse, I'd say the long-term upside far outweighs the additional downside at these levels. Cenovus and Husky look like two long-term winners for oil bulls that are willing to wait five years for the heavy oil bottleneck to be alleviated.

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