

Why It's Time to Reconsider This Energy Stock for the Long Term

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is a company that is not often mentioned in the context of other major energy investments, but the company really should be on the radar of investors everywhere.

Meet Cenovus

Calgary-based Cenovus is an integrated oil and natural gas company with facilities in Alberta, British Columbia and through a 50% stake, two U.S. refineries in Illinois and Texas. Despite only beginning operations in 2009, Cenovus actually has a storied history spanning more than a century. Prior to 2009, Cenovus formed the oil half of **Encana Corporation**, whereas Encana has moved on to primarily deal with gas.

The company has both deep basin and oil sands projects that are active, with the oil sands projects of Christina Lake and Foster Creek accounting for the company's active projects. Additionally, Cenovus does have regulatory approval for several other oil sand projects, such as Narrows Lake and Telephone Lake, but the Narrows project that was under construction in 2015 was halted due to depressed oil prices, while the future development of Telephone Lake also remains in question.

Many believe that the depressed oil market we've been witnessed to of late is finally ending, with prices steadily creeping upwards despite a growing discount on Western Canadian Select (WCS) over WTI West Texas Intermediate (WTI). Part of that discount can be attributed to the bottleneck in pipelines that's delaying the transport of WCS to the U.S. refineries.

To combat that, Cenovus signed a rail agreement last month to haul oil to those U.S. refineries.

The three-year deals signed with both of Canada's main railroads will see nearly 100,000 barrels of heavy crude hauled from northern Alberta to refineries along the U.S. Gulf Coast. The freight agreements are set to take effect before the end of the year, and then ramping up over the course of next year. Beyond loading and hauling the freight, the deal includes car leasing, marketing, and logistics.

The limited capacity for hauling heavy crude out from Alberta to refineries in the U.S. is one of the main reasons for the prolonged and growing difference in pricing between WTI and WCS. Further, efforts to build pipelines to raise that capacity are often rife with controversy.

By way of example, most will recognize the polarizing impact of the following three pipeline projects that have made news over the past few years: the Enbridge Line 3 Replacement, the Trans Mountain expansion project, and Keystone XL.

Why you should consider Cenovus

If all three of those well-known pipelines were completed, Canada's pipeline capacity to the U.S.

refinery market would swell from over 50,000 barrels per day to well over 650,000 barrels per day within the next five years.

Then there's Cenovus' debt, which can, for the most part, be traced back to the acquisition of ConocoPhillips last year. The \$17.7 billion deal left Cenovus a massive amount of debt, but an equally massive amount of potential is still not fully realized.

Currently, Cenovus is trading down 8% this year and down over 40% in the past two years. Given the recent rail agreement aimed at boosting production as well as a steadily increasing price of oil, it's not hard to see Cenovus emerge as a viable option for value-seeking investors.

While the stock is not without risk, long-term investors may want to consider a [small position in the company](#) before it begins to ascend in price, while also benefiting from the 1.82% yield that Cenovus offers.

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