Why Oil and Gas Stocks Might Be About to Take Off!

Description

It wasn't too long ago that the Alberta government announced it would be imposing limits on oil production in the province in an effort to improve struggling oil prices. Western Canada Select (WCS), which was trading at around $12/barrel back in November, has increased up to over $43/barrel as the cuts have had a very noticeable and immediate impact. As a result, earlier this week, Rachel Notley said that the province would ease the limits it imposed late last year.

Approximately 75,000 more barrels of oil will be able to be pumped per day as a result of the changes. However, a limit remains in place, as the premier stated that "We're not out of the woods yet, but this temporary measure is working." She went on to say, "In the long term, we don't want to have to curtail for any length of time… so we're going to continue to work with industry to find the right balance."

That's a good sign for the industry, as it should ensure that the government is working with the industry to help it in whatever way that it can. Adaptability will be key, especially with oil prices being very volatile during the past several months. If WCS can stay at these levels, and especially with a much narrower gap to West Texas Intermediate, it will help producers put out stronger financials and benefit from rising oil prices.

Is this a good time to buy oil and gas stocks?

With the province on board and looking to support the industry, it might be time for investors to start reconsidering oil and gas stocks, which have been undervalued for some time. **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE), in particular, has struggled to find any momentum. While the stock has risen recently, over the past 12 months, it's still down more than 11%. And if we stretch the time frame out even longer, we see an even more pronounced decline in share value.

Cenovus is trading well below its book value, and although it has been able to show strong growth in recent quarters, a lack of profitability and a poor outlook on the industry has kept the stock from sustaining much of a rally. Only once during the past four quarters has Cenovus been able to stay out of the red, and even then that was a result of income earned from discontinued operations.

However, from a cash perspective, Cenovus has been doing much better, it's been able to generate positive free cash in all but one of the past five quarters. Things haven't been so dire for the company and it could prove to be a great value buy at a time when many people aren't giving it much of a chance. Ultimately, Cenovus and other oil and gas stocks are likely going to be long-term plays and investors will have to be patient.

The industry still has a long way, to go but if producers are at least getting decent rates for their production, then there is hope that we'll see a much stronger recovery take place.

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