A Remarkable Value Stock That’s Worthy of Your RRSP Dollars

Description

Do you consider yourself a true contrarian investor?

If you want to beat the markets and post incredible results, you’re going to need the right mindset if you’re going to make excess risk-adjusted returns from a deep-value stock that you’ve been eyeing. In short, you need to realize that by being contrarian, and not following the herd, you’re more than likely to endure pain over the short-term because very rarely do value investors get in at the very bottom of an investment that’s fallen out of favour.

Short-term pain for long-term gain is what you’re signing up for as a value investor. And if you’re a beginner, you’re going to feel stupid in the first few weeks, months or even years, if an investment doesn’t go the way you’re expecting it to. If you have conviction and you did, in fact, grab a stock at a discount to its intrinsic value, your patience will eventually be rewarded, whether it’s over a month’s or half a decade’s time.

The deep-value stock I’m about to present to you today is not one for quick profits, so if that’s what you’re looking for, you may want to stop reading now, as anything less than a multi-year investment horizon will surely result in sub-par results relative to the indices.

Without further ado, enter **Cenovus Energy** (TSX:CVE)(NYSE:CVE), an oil sands operator and a dud of an investment over the last decade. Most deep-pocketed investors have already thrown in the towel on the name and the Albertan oil patch as a whole in recent years.

I’m sure you’re aware of the dire situation that many Canadian energy stocks are in right now and the lack of significant catalysts on the horizon that could relieve the oil sands operators of the pressures that have been placed upon them, both by government regulators, and the unfavourable economic conditions, not just for oil, but also for Alberta’s inferior kind of oil, Western Canadian Select (WCS), which trades at an ever-widening discount to West Texas Intermediate (WTI), the crude benchmark.

The multi-year flop endured by Cenovus wasn’t pretty. Management made the wrong moves at the wrong time, and they got caught with their pants down when oil prices plunged. While the fate of Cenovus is still tied to uncontrollable macro factors, longer-term value investors should be ready to scoop up shares as they're severely depressed, and one would think that the incredibly unfavourable environment for Albertan oil patch operators won't last forever.

I know it's a relatively weak thesis, especially if you desire to outperform over the medium term, but if you've got the time horizon, a bet on Cenovus comes with potentially massive rewards that don't compare to most blue chips.

The company has come a long way since the oil crisis, and with a better-looking balance sheet and compelling progress made on new solvent-aided extraction methods, I wouldn't be surprised to see Cenovus make up ground over its peers over the next five years, even if oil prices were to remain at the levels seen today.

Cenovus is innovating, and if new extraction techniques show promise, the company could easily reduce its costs of production, making it one of the more economical oil sands operators in the space. Now, there are still many uncertainties, as extraction techniques could be less practical on a larger scale, but with shares at 0.7 times book and 0.6 times sales, the value-conscious should be all ears.

Foolish takeaway on Cenovus

The financial health of Cenovus has improved over the years, and if you're one to think that the heavy oil environment conditions couldn't be any worse, Cenovus could be a potential multi-bagger.

But of course, the risk is that you could be waiting a very long time before realizing any meaningful upside. An overnight pop isn't going to happen, but an overnight flop most definitely could. So, if you've got time, patience, a high pain tolerance, and some cash to bet on deep-value plays, Cenovus should be at the very top of your RRSP shopping list!

Stay hungry. Stay Foolish.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/07/08
Date Created
2019/02/15
Author
joefrenette