Shares in this Canadian Oil Refiner Are Absolutely Soaring!

Description

Shares in $14.9 billion market cap **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) have absolutely soared to start 2019, gaining more than 30.4% through the first three months of the new year, including a more than 5% gain during yesterday's trading session alone.

Why has the market suddenly turned so bullish on the integrated oil company?

In this post, I'll attempt to delve into what makes Cenovus stock such a compelling investment opportunity right now in the current market environment.

Gas prices have been going through the roof

The price required to purchase a contract of gasoline in the spot market has already risen an incredible 45% so far this year.

And while some may find that to be unwelcome news, particularly for motorists and transportation companies, it's certainly a positive development for a company like Cenovus and the firm's shareholders.

That's because Cenovus, as an integrated energy producer, operates what's referred to as a "spread business."

Essentially it seeks to profit from the difference between the price it pays for crude oil contracts and the price that it sells refined products such as gasoline and diesel.

This means that as long as oil prices stay where they are and unless the price of gasoline were to suddenly crash through the floor, it's almost as if Cenovus owns a license to print money from its refining operations.

Creating your own imperfect hedge

There's basically three plausible scenarios at this point – at least as I see it.

Oil prices stay lower for longer and the price of gasoline stays put pretty much where it is today.

In this case, Cenovus buys low on oil and sells gasoline high, locking in a profit for Foolish shareholders like you and I.

Or, oil stays low and gasoline prices decline in value.

In this case, so long as you own or drive a motor vehicle, you're saving at the pump when you go to fill up your tank of gas.

While it's not an investment profit in the traditional sense, but hey, at least you're still making money on a relative basis by cutting back on your monthly household expenses.

Or third, the price of oil begins to climb in value.

In this case, maybe Cenovus isn't such a great investment.

But it also doesn't necessarily make it a bad investment either.

And yet, because so many Canadian oil and gas companies have had the values of their share prices depressed for so long now, there are literally a whole wack of companies in the market today that would make for outstanding investments in the event that this scenario did occur.

The fact of the matter is that Cenovus stock price has been oversold and out of favour for some time now following an M&A deal a few years ago that saddled the company with billions of debt.

Yet management has taken a conservative approach to manage those outstanding liabilities, paying down more than $4 billion in financial obligations since the beginning of 2017.

The company is now reaching a point where the hangover from the much maligned ConocoPhillips acquisition appears to be firmly in the company's rearview mirror, yet the assets that Cenovus acquired in that deal have positioned the company to be a significantly larger entity going forward than it was before that deal took place.

I've been a CVE bull for some time and at this point I continue to be.

The latest run-up in the company's share price only have only served to reinforce this view. and I would not be surprised at all if it turned out that Cenovus ended up being one of the best-performing stocks on the TSX Index in 2019.

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