



A Dirt-Cheap Oil Stock That Could Make You Filthy Rich

Description

An oil stock? Filthy rich?

Sounds utterly absurd given today's highly unfavourable environment that's been set for most Canadian firms in Alberta's troubled oil patch.

The oil plunge of 2014 wreaked havoc on the entire Canadian energy sector, and although it's been nearly five years since the implosion, there are still a tonne of Canadian oil stocks scattered across the TSX index that are still severely wounded in spite of the partial rebounding in West Texas Intermediate (WTI) past the US\$60 mark.

Looking ahead, newly elected Albertan premier Jason Kenney and his pro-energy agenda are seen as a potential catalyst that could make Alberta great again (sorry, I had to!). Corporate tax cuts, the scraping the carbon tax, and a potential B.C.-Alberta spat to get the pipelines built are auspicious events that could send Canadian oil back into the green.

Despite the handful of potential catalysts, most oil stocks have yet to rally by a meaningful amount because investors know that even the most favourable government won't be enough to get oil prices back to their pre-2014 highs. The UCP government can provide energy firms with a nice boost and stomp down regulatory hurdles, but in the end, it's going to be exogenous factors that'll dictate which direction oil prices are headed next.

While it's nearly impossible to predict which direction oil prices are heading next, it is possible to find opportunities to pay a dime to get a dollar in Canada's heavily out-of-favour energy sector. There are plenty of severely discounted oil stocks out there that are essentially coiled springs waiting to pop.

Nobody knows when they'll pop, but should things fall into place at the right time, such coiled springs could take off. And while there's certainly a possibility that you could wait for another five years (or more) for such a scenario to happen, at today's valuations, the risk/reward trade-off appears to be heavily tilted on the side of the investor.

Moreover, as Kenney and his crew do their best to make energy stocks appear more [attractive](#) to

foreign investors, we could see a big inflow of investment dollars back into the Canadian energy sector as sovereign wealth funds and big institutional investors reconsider dipping their toes back into Alberta's oil patch.

What's one stock that stands out as having an incredibly favourable risk/reward tradeoff?

Enter **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)), an oil sands player that's down but not out. The company suffered a drop of over 75% from peak to trough thanks in part to the 2014 plunge in oil prices and moves made by management at the worst possible times.

Fellow Fool contributor Andrew Walker seems to think that most of the bad news, including the firm's bad hedges, are now in the rear-view mirror and that the stock is an [interesting contrarian pick](#) at today's levels. Walker is also optimistic that the completion of major pipelines could provide Cenovus stock with a major boost: "Trans Mountain and Keystone XL still have reasonable chances of being built in the next few years, and once they go into service, the entire outlook should change for Cenovus."

While there have undoubtedly been many hurdles in front of the pipelines, I think Walker's investment thesis makes a tonne of sense for the long-term investors who aren't regularly checking in with the state of Canada's energy situation.

Cenovus stock is both ridiculously cheap and is an innovator in its own regard with work that's been done on more efficient solvent-aided extraction techniques. While such eyebrow-raising methods could end up being a game-changer, they're not the "main attraction" to Cenovus shares — the valuation is.

The stock trades at 0.9 times book and 0.7 times sales, considerably lower than the five-year historical average multiples of 1.4 and one, respectively. The 5.5 P/CF is also well lower than the three-year historical average P/CF of nine. If you've got money to put to work for the next 10 years, I think Cenovus is one of the best bangs for your buck out there, even if you're less than sanguine on the medium-term outlook for oil.

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