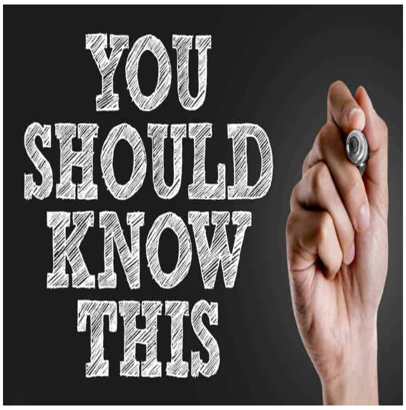

Should You Buy Cenovus Energy (TSX:CVE) Stock Today?

Description

Contrarian investors are searching for out-of-favour stocks that might offer some serious upside potential on a turnaround in the industry or a change in market sentiment.

The Canadian energy sector has had its fair share of casualties, and despite a rebound in energy prices, many producers still trade at very depressed levels. Let's take a look at **Cenovus Energy** (TSX:CVE)(NYSE:CVE) to see if it might be an interesting pick for your portfolio right now.

Cenovus

Cenovus was created nearly 10 years ago when **Encana** decided to spin off its oil sands business. The stock initially traded near $30 per share and briefly topped $39 at one point in 2012. Since then, it has pretty much been a steady downhill slide. Today, Cenovus trades for about $11 per share, which isn't too far off the $9 low it hit a couple of times in the past two years.

Why would investors bother?

Cenovus is trying to get around the Canadian pipeline bottlenecks by shipping more oil by rail. The company expects train shipments to hit 100,000 barrels per day (bbls/d) by the end of the year.

On the pipeline side, Cenovus has booked a combined 275,000 bbls/d on the planned Keystone XL and Trans Mountain projects. Public and political opposition have put both developments in limbo, but the U.S. Federal government appears motivated to get Keystone XL built, and Trans Mountain looks like it might be slowly creeping towards a potential green light.

Ongoing delays should be expected, but one of these projects, if not both, will likely go into service in the next few years, and that bodes well for Cenovus.

The company spent $17.7 billion to buy out its oil sands partner in 2017, and the move immediately doubled the resources and the ongoing production. An expansion at the Christina Lake site is complete, and Cenovus has the flexibility to start up production once the existing Alberta production curtailments are lifted.

For the moment, the province appears to be winding down the restrictions at a gradual pace to ensure WCS oil prices stay somewhat elevated. The WCS price dropped to US$11 per barrel last fall before rebounding to US$55 in April. The rally has since run out of steam and WCS is currently at US$40. That could mean the restrictions will remain in place for some time.

Should you buy?

Cenovus has the potential to be a cash machine, and the stock could easily double from the current level on an improvement in market access and higher prices.

If you are of the opinion that oil is headed higher and at least one of the major pipeline developments will get built, Cenovus might be an interesting contrarian pick today.

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