# Why Cenovus Energy (TSX:CVE) Could Skyrocket

## Description

Oil and gas stocks have been a thorn in my side. I see the value in these cyclical stocks, I am fairly confident that Canada's infrastructure problems will be resolved, and I believe that oil and gas will be needed for a while longer as the world transitions to cleaner sources of energy.



In the meantime, oil and gas stocks remain grossly undervalued. Generating tons of cash flow, paying out generous dividends, and producing oil and gas at ever cheaper costs as technology continues to increase efficiency and productivity for these companies.

So if you don't mind part of your money being inextricably linked to oil prices, consider **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) for the following reasons, all of which could send the stock skyrocketing.

## Trans Mountain expansion

The decision with regard to the Trans Mountain Pipeline expansion will be taking place on June 18, and although we can't bank on the outcome until it is official, all indications point to a positive vote.

As various indigenous groups are vying for part ownership, Alberta's government is putting on the pressure with media ads and rallies aimed at pressuring the federal government to approve the expansion, we can see that the tide is turning.  Voices once drowned out by protestors are now speaking up.

Canada has lost so much already, and stands to lose much more.  Accounting for 10% of the world's proven oil reserves and being the fifth-largest producer of natural gas, this country has much at stake. But high-quality resources plus a safe and politically stable environment should place Canada's oil and gas resources on the top of the list of most wanted.

Canada's oil and gas industry has played a big part in Canada's riches and well-being over the years, and it remains key for Canada. The approval of the Trans Mountain expansion would get the oil and gas industry flowing again, bringing investment back to Canada.

## Cash flow rich

Cenovus Energy has seen strong cash flows coming through in the last five years in the good and not-so-good years. In the first quarter of 2019, Cenovus generated more than $1 billion in adjusted funds flow. Even in 2016, when realized oil price per barrel was just over $31.00, Cenovus generated operating cash flow of $1.4 billion.

The $17.7 billion acquisition of assets from ConocoPhillips in 2017 has served to dramatically increase Cenovus' production profile, drive efficiencies and drive strong cash flow growth. The 2019 operating cash flow is expected to be north of $4 billion, operating costs are coming down quickly and currently stand 25% lower than 2015 levels, at $8.00 per barrel of equivalent oil (boe).

Of course, future cash flow numbers hinge on future oil prices, so let's take a look at Cenovus' sensitivity to changes in oil prices.



## Leverage to prices

A $1 per barrel increase in the Western Texas Intermediate (WTI) price adds $80 million in 2019 adjusted funds flow, and a $1 per barrel narrowing of the WTI/Western Canada Select (WCS) differential adds $60 million to 2019 adjusted funds flow.

As a bonus, we also have solid downside protection with Cenovus, and as it's very difficult to forecast oil prices, this is good to have. Cenovus can sustain capital requirements and the current dividend (1.81% dividend yield) at low cycle oil prices of US$45 per barrel WTI prices and Cdn$43 per barrel WCS prices.

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