One Oil Stock That's Actually Worth Buying

Description

Many Canadians have followed in the footsteps of international investors by throwing in the towel on many of the firms operating within Alberta's ailing oil patch.

The operators in Canada's oil sands haven't been the same since the 2014 plunge in oil prices, and with no signs of relief heading into 2020, many investors are wondering if their energy investments are dead money as renewable energy projects continue to displace fossil fuels around the globe as a primary energy source.

As an energy investor who held through 2014, you're probably sick of waiting for the WCS-to-WTI discount to shrink. Pipeline progress (or lack thereof) doesn't bode well for many oil producers.

With nothing to look forward to other than exogenous black swan events, it certainly appears as though bets on oil stocks will continue to be unrewarding relative to most other options out there.

Currently, the ability to turn on the taps depends on factors that are outside of the control of individual oil companies themselves. Namely, oil prices dictate how economical it is for oil producers to ramp up production with prospective projects that are on hold. And with production curtailments, it's gotten tough to sit on oil stocks as the heavy crude bottleneck looks to alleviate itself.

Over the next few years, however, I do see firms like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) starting to seize control of their own fate by lowering the cost of production to make it more economical to thrive in a lower oil price environment.

Holding oil stocks and praying for oil prices to rocket higher is a foolish (that's a lower-case "f") investment thesis that could lead one to underperform the markets for years, if not decades.

Picking up shares of dirt-cheap companies with unique and compelling plans at the company-specific level, though, is a smart idea that could lead to massive rewards, regardless of whether WTI prices bounce back above the US$70, or whether WCS will ever close the gap with WTI.

So, what's there to like about Cenovus?

Apart from the stock's severe undervaluation (shares trade at 0.7 times book and 0.6 times sales), the company has made significant strides with its solvent-aided process (SAP) technology, which, if successful, could grant Cenovus the competitive advantage of better economics over its peers in the space.

Oil sands projects are notoriously expensive, so if SAP can cut down on the bills, Cenovus could find itself gaining an edge over time, even if crude prices don't recover to pre-2014 highs.

Cenovus's SAP technology appears to be ahead of its peers, but it could take some time before the new extraction technique can drive break-even prices below the mid-US$40 WTI levels. As such, Cenovus is a deep-value play that may not pay off until three or more years down the road.

Foolish takeaway

It's tough to invest in the oil sands. The hold-and-pray strategy hasn't produced satisfactory results, and it probably won't unless some miracle happens. With Cenovus, however, you're getting a rock bottom price of admission to go with promising SAP tech that could drastically lower the cost of production over time.

While we won't see break-even prices fall to US$40 WTI anytime soon, I'm a fan of the trajectory and the firm's economic potential that goes beyond just waiting around for oil prices to boom again. And should oil prices rocket higher with lower costs of production, Cenovus could skyrocket like a bat out of hell.

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Date
2025/07/27
Date Created
2019/10/17
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