Contrarian Investors: Why Cenovus Energy (TSX:CVE) Is the Best Deal in the Oil Patch

Description

The Albertan oil patch continues to be in a world of pain with energy layoffs continuing to happen more than five years after the collapse in oil prices, the most recent round of the dismissals announced by **Husky Energy** on Tuesday.

Alberta Premier Jason Kenney's corporate tax cuts aren't creating jobs as was intended. As Canadian energy stocks continue to tread water, it's tough to justify an investment in the oil patch as the pains continue.

The boom and bust nature of the oil patch is nothing new, and unfortunately, only time (or pipelines) will be able to heal the wounds of the ailing firms operating in Alberta's oil patch. What separates the long-term winners from the rest of the pack, though, is progress that's made during times of turmoil.

If you're keen on placing a contrarian bet on one of the oil sands giants, you're going to want a company that's using the downturn as an opportunity to make fundamental, long-lived operational improvements, rather than a firm that's just waiting around for oil prices to go higher before turning the taps back on again.

The firms that cut excessively and hibernate amidst the energy recession will still stand to bounce back in conjunction with oil prices when the time comes, but not to the same extent as firms that have been working hard in the downturn to become a better version of itself.

Cenovus Energy (TSX:CVE)(NYSE:CVE) stands out to me as one of the firms that have been using the recent downturn as an opportunity to better position itself for the extremely long term.

In prior pieces, I praised Cenovus for progress in its solvent-aided extraction process (SAP), which aims to reduce break-even costs and make operations more economical, even in a lower oil price environment.

As you may be aware, oil sands operations are ridiculously expensive, and with the heavy crude bottleneck that's keeping WCS prices depressed, it's become uneconomical to keep the spigots turned onto their full capacity.

Many promising assets of the oil sands operators are landlocked for the time being, but Cenovus isn't just going to wait another five years for the tables to turn.

The company continues to make progress on its SAP production technology, and over the next few years, Cenovus could find itself an industry leader should the extraction process allow for free cash flow generation well below US$50 WTI.

Add the potential pipeline progress into the equation and Cenovus could be one of the most rewarding bets for patient deep-value investors over the next decade.

For now, stash shares in your TFSA and just forget that you own them. The stock is absurdly cheap and may be close to a bottom at only 0.74 times book and 0.65 times sales.

Foolish takeaway

Buying and holding energy stocks with the hope that oil prices will recover is not investing. It's speculating, and unless you're a seasoned commodities trader, such a strategy is likely to cause you to lose big money.

When you're looking for a long-term contrarian play, look to companies that are making progress in spite of any industry-wide difficulties.

Cenovus is striving to become a better version of itself as oil prices remain depressed and with a plan to become more economical in a lower oil environment, the stock could provide substantial returns, even if oil weren't to bounce back to pre-2014 levels.

Add the severely depressed valuation and the likelihood of pipeline progress into the equation, and you've got yourself a stock that has a highly favourable risk/reward trade-off.

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