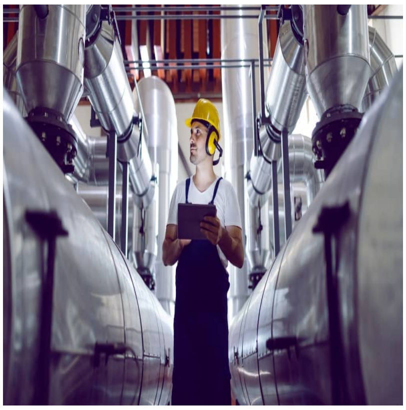

Why Cenovus Stock Could Still Double This Year

Description

Along with several other companies, **Cenovus** (TSX:CVE)(NYSE:CVE) has felt the pandemic's wrath — in a big way.

However, of late, this stock has really shown what it's made of. Cenovus has seen its stock price approximately double over the past year. And that's not by accident.

Indeed, it appears investors are gravitating toward value stocks like never before. And Cenovus's valuation has been hit much harder than many argue it should have during the pandemic.

Here's why this recovery may only still be in its early innings for this Canadian energy player.

Optimistic prospects more than offsetting bearish catalysts

Bears have noted that Cenovus's one-time balance sheet hit it took when acquiring Husky was too big to ignore. Indeed, this business combination was one investors chose to steer clear of. And that certainly makes sense. The debt profile for the combined company required some re-jigging to make the deal make sense. Accordingly, Cenovus found itself monetizing non-core assets to make this deal happen. Some investors didn't like the structure of the deal, nor what was left when it was all said and done.

However, the overhang from this deal is more than fully priced in at these levels. Debt concerns, which were once massive issues when oil was trading where it was (it was actually negative for a short period of time) became even more problematic. However, with oil prices now hovering around US$70 WTI, these concerns seem to be less of an issue today.

If Cenovus can increase its cash flows as expected as a result of this deal, the Husky acquisition could turn out to be a great move over the long term. Time will tell. However, right now, things look much more optimistic for Cenovus than at any point during the past year.

Bottom line on Cenovus stock

With the one-time integration cost of US$245 million tied to the Husky deal behind Cenovus, investors can look forward to some impressive cash flow growth on the horizon.

Why?

Well, Cenovus still managed to book a profit of US$200 million this past quarter, despite impairment charges. As long as oil doesn't nosedive anytime soon, Cenovus still looks very cheap here. Accordingly, I think value investors sniffing around for deals will isolate companies like Cenovus for some time to come.

Indeed, it's not to late to pick up shares of Cenovus around $12 per share. In fact, at this level, I think much more upside could be on the horizon. The company has front-loaded its negative news and is poised to increase production over the near to medium term. For investors bullish on energy, this is one place to be right now.

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