



## Cenovus Energy Stock's Rally May Just Be Getting Started

### Description

Don't look now, but **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) is one of the [hottest](#) stocks on the entire **TSX**, with shares now up an incredible 505% off its March 2020 lows. The rebounding Canadian energy company may be white-hot, with incredible momentum behind it, but it's still down 29% over the past five years.

Moreover, it's still off a country mile (around 75%) away from its all-time highs, last hit nearly a decade ago. As such, Cenovus Energy stock finds itself at the intersection between [value](#) and momentum. With the recent run-up in oil prices (West Texas Intermediate now finds itself north of US\$70 per barrel), I think Cenovus stock may just be getting started with its rally.

### Cenovus Energy stock picks up traction

While I'm not calling for a return to the \$40 level (that'd imply shares would quadruple), I do find it absurd that CVE stock is pretty much where it was before the stock market fell off a cliff last February, given that oil prices are now putting multi-year highs to the test.

In any case, Cenovus stock is a name that's suitable for both the value and momentum crowds, especially with the recent inflation-driven bout of volatility. Consumer prices are ridiculously high, and if you're skeptical over the Fed's beliefs that inflation will be transitory, Cenovus is the ultimate hedge for any tech- or growth-weighted portfolio.

### Cenovus Energy stock: The ultimate inflation hedge?

Now, I'm not saying you should doubt the Fed and ditch your tech stocks after they've been hit.

Rather, I think many beginners should hedge their bets, as there's always a chance that the Fed skeptics could be right, and inflation may not be as transitory as the Fed makes it out to be. **JP Morgan** 's Jamie Dimon recently warned that there's a "good chance" that inflation may be here to stay. If that's the case, inflation hedges (commodity plays) are likely to continue running strong into year's end.

At this juncture, I'd argue that Cenovus is where many Canadians will want to be if they're not sufficiently hedged against lingering inflation north of 2%.

## Cenovus Energy stock is still cheap at \$10 and change

Despite the recent run, Cenovus stock is still a bargain at just 1.1 times book value and 1.3 times sales. Amid inflation jitters and re-fuelled demand for energy, West Texas Intermediate could make a run for the US\$100 mark under a bull case scenario. If that happens, Cenovus is realistically capable of doubling up again as it looks to play catch-up with the oil rally.

It's not just the bright macro picture that has me bullish on Cenovus shares, however. The company has made meaningful improvements to its operations over the years. The company could be looking at well north of \$1 billion in annual synergies. Moreover, innovative extraction techniques could also apply downward pressure on break-even prices. Such exceptional operating performance should not go unnoticed by investors.

### Bottom line

I hate chasing stocks that have more than doubled up over the past year. That said, I'm willing to make an exception for Cenovus stock. I still find it to be undervalued, given the environment ahead.

In a nutshell, Cenovus is firing on all cylinders after years of fading into the background. It doesn't matter if you're looking at Cenovus Energy stock from a top-down or bottom-up viewpoint; the company is making major strides, and the tides have turned in its favour in a big way.

As oil continues marching higher, I expect CVE will continue leading the upward charge in the Canadian energy scene. If you're light on reflation, inflation hedges, or cyclical plays, I'd look into initiating a position in the name while valuations are still modest.

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