



Buy Cenovus Energy Inc. or Somebody Else Will

Description

Oil stocks may be a tough sell in this environment, but at least one analyst believes it's time to buy before someone else beats you to it. Desjardins Securities analyst Justin Bouchard was speaking specifically about **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), but he could be talking about a number of undervalued oil stocks, all of which have been hit hard by this year's crude-price decline.

"We believe Cenovus presents a compelling investment opportunity from a risk-reward standpoint, and suggest that at its current valuation there is no option more attractive to Cenovus than buying back its own shares," Bouchard said in a note to clients. "In addition, the unjustifiably low valuation brands it as a prime acquisition target given the quality and size of its oil sands portfolio. As we see it, the bottom line is that if the company is not willing to buy back its own shares or investors do not buy in, then someone else will."

Bouchard adds that Cenovus is a high-quality investment with a substantial margin of safety from a liquidity and leverage perspective. And he believes the oil sector in general is not in a terminal decline, but rather in a cyclical downturn that will eventually reverse.

The analyst views Cenovus as a premier oil sands company focused on in situ SAGD (steam assisted gravity drainage) exploration. "Most notably, we believe that Christina Lake and Foster Creek are the best SAGD assets in the business and that anyone with oil sands aspirations would covet those projects."

Looking beyond U.S. borders

Even before the recent oil price shock, Canadian oil and gas companies were seeking out new international markets in order to reduce their dependence on U.S. refineries as American shale oil production continues to grow.

Earlier this year, in a complex transaction, Cenovus secured an export licence from the U.S. and has completed some transactions to export from the Gulf Coast. Cenovus will begin exporting in the fourth quarter.

Cenovus also wants to build on its Asian exports through Kinder Morgan's Trans Mountain pipeline in British Columbia.

"Some of the independents refiners in China are now able to access sales directly and do not have to go through major refiners in China. And we have already executed one of those sales as well," Bob Pease, executive vice president of corporate strategy and president of the company's downstream division, recently told *The Financial Post*.

In Q2 2014, Canadian producers exported an average of nearly 188,000 barrels per day to markets outside of North America—more than quadruple the volume of the previous quarter.

So, even if oil stocks look shaky, there are some positive signs for foolish investors willing to take on a little risk. It may be worth it in the long run.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

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