3 Reasons to Buy Cenovus Energy

Description

Cenovus Energy (TSX: CVE)(NYSE: CVE) is a name that may be familiar to many Canadians thanks to its numerous TV advertisements showcasing the oil sands, but there is a lot more to the company than its PR campaign. It's one of Canada's largest energy companies, producing nearly 180,000 barrels of oil and other liquids per day in 2013. It also may be one of the country's most undervalued producers.

Below are three reasons to buy shares of Cenovus.

1. The energy renaissance

This is an argument that could apply to any energy company, and Cenovus is of course no exception. The environment for Canadian energy producers has improved substantially over the past year, resulting in higher prices for their products.

To illustrate, in the first quarter of 2013 Western Canadian Select, the benchmark price for Albertan heavy oil, averaged $62.41 per barrel. One year later, in the first quarter of 2014, the price increased to $75.55. As crude-by-rail grows in significance, ideally that price will rise even further.

2. High-quality assets

When investing in energy companies, it always helps to go with the company with higher-quality assets; if oil prices plummet, then it's more likely the company will remain profitable.

No energy company has higher-quality assets than Cenovus. According to BMO Capital Markets, its Foster Creek project produces oil at a lower cost than any other oil sands asset in Canada. Not far behind is the company's production at Christina Lake, which ranked as having the third-lowest cost. Both of these properties are able to operate profitably even if oil falls below $40 per barrel. The same thing could be said about only two other producing assets in the entire industry.

3. A lagging share price

As would be expected, the improving environment for energy in Canada has led to some sharply higher share prices. **Suncor's** (TSX: SU)(NYSE: SU) shares have returned 37% in the past 12 months, and shares for **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ) have returned nearly 55%.

In comparison, Cenovus Energy's shares have lagged, returning only 2%. The company has had some issues over the past year, primarily at Foster Creek, where production fell by 8% and operating costs have risen by 32%. But the share price lag has likely been an overreaction to some short-term problems, and now Cenovus even has a nice 3.6% dividend yield. It's an opportunity that's difficult to pass up.

CATEGORY

1. Investing

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bensinclair