Why Cenovus Energy Inc. May Be the Best Way to Bet on an Oil Recovery

Description

It's been a rough couple of years for **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and its shareholders. Even before the price of oil collapsed, the company was having difficulties at its Foster Creek operation, eroding the company's profitability. And the oil price decline has only added to the company's pain.

To put this in proper perspective, since mid-February 2013, Cenovus shares are down by about 25%. Meanwhile, the **iShares S&P/TSX Capped Energy ETF** (TSX:XEG) has declined by only 8% over that same time. And large rivals such as **Suncor Energy Inc.** and **Imperial Oil Limited** have seen their shares rise.

On Thursday, the news only got worse. The company reported a net loss of 62 cents per share for the fourth quarter of 2014, or 78 cents on an adjusted basis. Cash flow from operations more than halved. And this was despite a 14.5% increase in production.

In response, Cenovus said it would cut 15% of its workforce, freeze pay raises, and cut discretionary spending. This comes off the back of two previous cuts to its 2015 capital budget.

The investment community is clearly not impressed — the stock is down by more than 1% on a day when crude prices are increasing. At this point, it's safe to say no one wants to own this stock anymore. But has that created an opportunity? After all, there are some things to really like about Cenovus. Below we take a look.

A low-cost producer

In today's oil price environment, it's extremely important to have low costs. And Cenovus has some of the lowest-cost operations in the Canadian energy sector. The most recent results offered us yet another reminder of this.

In 2014, operating costs at Foster Creek, which accounted for 30% of oil production, came in at just $16.55 per barrel. And operating costs at Christina Lake, which accounted for 35% of production, were a miniscule $11.20 per barrel. Cenovus's remaining production came from conventional wells, where operating costs totaled $18.81 per barrel.

And thanks to these low-cost operations, Cenovus should continue generating positive cash flow while growing production, even in today's oil price environment.

A strong balance sheet

If you look at which companies have suffered the most in today’s environment, it’s the heavily indebted ones. Luckily, Cenovus is not one of those companies. To illustrate, its net debt totaled just 31% oftotal capitalization, as of the end of last year. So the dividend (which yields over 4%) is in no realdanger of being cut.

So is this a bet worth making?

If you’re looking to make a bet on Canadian oil, Cenovus is an excellent option. It has low-cost operations, growing production, a strong balance sheet, and a nice dividend. Better yet, its stock price has taken a beating over the last couple of years, and no one seems to want the shares anymore. That may have created an opportunity for the rest of us.

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