Should You Buy Cenovus Energy Inc.’s Stock Following its Steep Post-Earnings Drop?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE), one of largest integrated oil and gas companies in Canada, announced fourth-quarter earnings before the market opened on February 12, and its stock has responded by falling about 10% in the trading sessions since. Let’s take a closer look at the quarterly results to determine if this weakness is a long-term buying opportunity or a major warning sign.

A quarter of year-over-year declines

Here’s a summary of Cenovus’ fourth-quarter results compared to its results in the same period a year ago.

Metric	Q4 2014	Q4 2013
Earnings Per Share	($0.62)	($0.08)
Revenue	$4.24 billion	$4.75 billion

Source: Cenovus Energy Inc.

In the fourth quarter of fiscal 2014, Cenovus reported a net loss of $472 million, or $0.62 per share, compared to a net loss of $58 million, or $0.08 per share, in the year-ago period, as its revenue decreased 10.7%. The company’s widened net loss can be attributed to $567 million in losses from its risk management positions, primarily due to declining commodity prices. Its double-digit decline in revenue can be attributed to revenues falling in all three of its major segments, including declines of 14% to $2.77 billion in its Refining & Marketing segment, 2.7% to $1.01 billion in its Oil Sands segment, and 5.8% to $657 million in its Conventional Oil segment.

Here’s a quick breakdown of 10 other notable statistics and updates from the report compared to the year-ago period:

1. Oil Sands production averaged 142,213 barrels per day, an increase of 24.9%
2. Conventional Oil production averaged 73,964 barrels per day, a decrease of 1.2%
3. Natural gas production averaged 479 million cubic feet per day, a decrease of 6.8%
4. Cash from operating activities decreased 11.1% to $868 million
5. Cash flow decreased 52% to $401 million
6. Capital expenditures decreased 12.5% to $786 million
7. Total assets decreased 2.1% to $24.7 billion
8. Total liabilities decreased 5% to $14.51 billion
9. Total shareholders' equity increased 2.4% to $10.19 billion
10. Ended the quarter with $883 million in cash and cash equivalents, a decrease of 23.6% from the third quarter

Cenovus also announced that it would be maintaining its quarterly dividend of $0.2662 per share in the first quarter of fiscal 2015, which will be paid out on March 31 to shareholders of record at the close of business on March 13.

Should you invest in Cenovus Energy today?

Cenovus Energy is one of Canada's largest integrated oil and gas companies, and decreased sales and significant losses from its risk management positions led it to a very weak fourth-quarter performance, and its stock has responded accordingly by falling about 10% in the weeks since the earnings were released.

I think the post-earnings drop in Cenovus' stock is warranted, but I also think it has led to a long-term buying opportunity, because it trades at inexpensive valuations and has a very high dividend yield.

Cenovus' stock now trades at just 22.7 times fiscal 2014's earnings per share of $0.98, which is very inexpensive compared to its five-year average price-to-earnings multiple of 27.7. I think the company's stock could consistently command a fair multiple of 25, which would give it a fair value of around $24.50 per share today, representing upside of more than 10% from current levels.

Cenovus pays a quarterly dividend of $0.2662 per share, or $1.0648 annually, which gives its stock a very high 4.8% yield at current levels and makes it both a value and dividend play today.

With all of the information above in mind, I think Foolish investors should consider using the post-earnings weakness in Cenovus Energy's stock to begin scaling into long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

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