Which Is the Better Buy Now: Cenovus Energy Inc. or Husky Energy Inc.?

Description

The 50% plunge in the price of oil caused a deep sell-off in oil stocks. We see this in well-known Canadian oil stocks **Husky Energy Inc.** (TSX:HSE) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), which are down by 22% and 30%, respectively, over the past year. Those discounted stock prices have caught the eye of investors looking for a bargain. However, there are three things to consider before deciding between the two.

Valuation

Given the fact that Cenovus Energy's stock is down 30% over the past year, one would think it's the cheaper stock. However, when we take a closer look and compare the two valuations we find something rather surprising.

hse vs cve valuation
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As we see on that first chart the two are really neck and neck when it comes to their PE ratios, which is typically the first place investors look when comparing valuation. However, when we take a step back and look at the enterprise value compared with the EBITDA ratio, which factors in things such as leverage and the business' underlying cash flow, we find that Husky Energy is much cheaper than Cenovus Energy. That certainly gives Husky Energy a leg up on Cenovus when considering which one is the better buy.

Balance sheet

The next factor to consider when choosing between the two is to compare their balance sheets. Given how weak oil prices are right now, and no real signs that a meaningful recovery is near, we'd want to own a company with a strong balance sheet. Here again we see that there is an obvious winner.

hse vs cve balance sheet
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Husky Energy's leverage ratio is about half of Cenovus Energy's ratio. One reason for this is because Cenovus has about a half a billion more in net long-term debt than Husky, despite the fact that Husky is $10 billion bigger on an enterprise value basis. In fact, debt makes up 21% of Cenovus' enterprise value, while it only makes up 13% of Husky's enterprise value. Clearly, Husky Energy has the better balance sheet between the two.

Returns

However, before we declare Husky Energy the better buy we need to look at one more area, which is the returns these companies earn on the capital they invest on their investors' behalf. Here we find that the two are rather close in returns on equity, assets, and capital employed.

hse vs cve returns

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In this case, Cenovus Energy actually earns slightly better returns on equity and capital employed, while Husky Energy is a hair better when it comes to returns on assets. We actually should expect Cenovus' returns to be better because of the fact that it uses more leverage and that extra leverage should juice its returns. That said, that extra leverage doesn't boost Cenovus' returns by a high enough rate that would make it a better buy over Husky Energy.

Investor takeaway

Cenovus Energy's stock might have sold off by a greater percentage, but that still doesn't make it cheaper than Husky Energy. Further, Husky Energy has a better balance sheet and its returns are in line with what Cenovus can generate, despite the fact it uses more leverage. Add it all up and Husky Energy is clearly the better stock to buy.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

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

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