Which Turnaround Stock Is a Better Bet: Cenovus Energy Inc. or Teck Resources Ltd.?

Description

The past three years have not been good for shareholders of **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE). The company has had trouble at Foster Creek during this time, and low oil prices have only made things worse. Since this day in 2012, its stock price is down by a third.

That said, Cenovus shareholders are thankful they didn't hold **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) instead. Teck has suffered mainly because of plunging commodity prices, and its shares are down by half as a result.

With both stocks so beaten up, now is arguably a good time to step in. But which one is a better turnaround bet?

The case for Teck

Even Teck's senior management will acknowledge that not much has gone right for the company recently. Most notably, China's slowing economy has absolutely battered commodity prices. Metallurgical coal, which accounts for the largest share of Teck's profits, has been hit especially hard.

But there are a couple of reasons to like Teck at this point. First of all, met coal producers are losing money left and right, but Teck is able to remain profitable at these prices. So, the company is well positioned to benefit from higher prices as other producers cut back.

Secondly, there's a lot of upside for Teck if met coal prices rebound. Remember, this is a stock that was trading at $60 back in early 2011. Today the shares trade for around $15.

Meanwhile, there doesn't seem to be much upside for Cenovus. Costs have come down for the oil industry as a whole, so a big oil price rebound seems unlikely. And Cenovus' shares haven't suffered as much as Teck's.

The case for Cenovus

While Teck has lots of potential, Cenovus is a better bet at this point for a few reasons.

First of all, Cenovus has a better track record of spending money wisely. The company has focused on two very high-quality assets—Foster Creek and Christina Lake—and shareholders have benefited along the way. Meanwhile, Teck has made two big acquisitions since 2008—Fording Coal and Silver Birch Energy—both of which were mistakes.

Secondly, the oil market seems to be stabilizing. Producers have cut back on drilling, demand is still strong, and prices have crept back up. Meanwhile, the met coal market is still struggling, and could get a lot worse depending on what happens in China.

Finally, Cenovus has only $6 billion in debt, not much for a company valued at over $20 billion. On the other hand, Teck has nearly $9 billion in debt, about equal to its market capitalization, and has another $3 billion in spending commitments at Fort Hills. It's no wonder that Teck slashed its dividend by two-thirds last month. So, Cenovus seems to be the better option.

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