



Is it Time to Buy Cenovus Energy Inc. or Canadian Oil Sands Ltd.?

Description

As the rout in Canada's oil patch continues to hammer energy stocks, investors are starting to sift through the carnage in search of companies that could deliver big upside rewards once the market finally turns the corner.

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) and **Canadian Oil Sands Ltd.** (TSX:COS) are two of the names getting a lot of attention.

Let's take a look at both companies to see if one deserves to be in your portfolio.

Cenovus Energy Inc.

Management at Cenovus will probably tell stories for years to come that 2015 was the year the company got hit with a perfect storm.

The drop in oil prices and weak Q1 crack spreads forced Cenovus to take some drastic measures to avoid a cash crunch in the first three months of this year.

The company reduced its workforce by 15%, cut \$700 million out of the capital budget and raised \$1.4 billion through an equity issue. Analysts question the wisdom of maintaining the 5% dividend but management is committed to keeping the payout at its current level.

If the Q1 bruising wasn't enough, the provincial election results have also thrown a possible left hook. The new NDP government is planning to raise corporate taxes and review its policy on royalty rates, all at a time when the oil sector is just starting to recover.

On top of that, the wildfires in Alberta caused the company to shut down its Foster Creek oil sands facility for a number of days and Cenovus expects the overall Q2 impact to be an average drop of 10,500 barrels per day.

Despite the obstacles, Cenovus is doing a great job of reducing expenses and improving output. Infact, total production in the first quarter was 11% higher than the same period the year before.

The Q2 hit to revenues will be an unfortunate setback, but Cenovus has adequate cash available to get through the short-term pain. As of March 31, the company had \$1.8 billion in cash and cash equivalents and total credit facilities of \$4 billion.

Oil prices have improved significantly over Q1 and Cenovus should generate sufficient cash flow to cover operating costs and possibly even the 5% dividend by the end of the year.

Canadian Oil Sands

Shareholders of Canadian Oil Sands have been on a wild ride since the beginning of the year and nimble traders have made a killing on the stock. Unfortunately, long-term investors have pretty upset stomachs and some are starting to wonder if they should just throw in the towel.

How crazy has it been?

In just five months the stock crashed to \$6 per share, shot back up to \$12, fell back to \$9, jumped again to \$13.50, and is now back down to \$10.

That's a lot of volatility.

The oil rout and the NDP victory are to blame for most of the pain, but the company is also battling to get costs under control at Syncrude, its massive oil sands operation. Canadian Oil Sands owns 37% of the project and has faced numerous operational challenges over the past three years.

Production levels are finally starting to improve and the company expects to get operating expense for 2015 down to \$40 per barrel, which would be a big improvement over last year, but is still high.

Which one should you buy?

Both stocks are risky bets given the ongoing volatility in oil markets and the uncertainty surrounding the NDP's policy changes.

If you are a long-term oil bull, Cenovus is probably the safer pick right now because it produces oil at a much lower cost than Canadian Oil Sands and its balance sheet is in better shape.

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Author

aswalker

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