



Why You Should Sell Cenovus Energy Inc. According to Goldman Sachs

Description

Over the past year, shares of **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) have fallen by nearly 45%. But according to **Goldman Sachs**, Cenovus's shares are still too expensive, especially relative to large peers like **Suncor Energy Inc.**

Why does Goldman think you should sell Cenovus?

An emphasis on dividend growth

The past couple of years have not been kind ones to Cenovus. In addition to the fall in oil prices, it has had to grapple with operational problems at Foster Creek, which have caused the company to miss production targets. This has put the company in a very tricky spot today.

In fact, Goldman has pointed out that Cenovus generates negative free cash flow after paying out dividends. So, it should not have been surprising when the company announced a dividend cut on Thursday.

A weak balance sheet

Cenovus has very reasonable goals for its balance sheet, with a debt target of 1.0 to 2.0 times adjusted EBITDA. But at the end of the first quarter this number stood at 1.9, right near the edge of this range. Worst of all, EBITDA numbers should decrease significantly with oil prices so low. This will put upward pressure on the debt ratio.

To deal with this problem, Cenovus raised \$1.5 billion earlier this year by selling new equity. The company also raised \$3.3 billion by selling royalties to the Ontario Teachers' Pension Plan.

These moves may have been prudent, but unfortunately they were done at a bad time. As mentioned, Cenovus's share price has plummeted over the past year, making an equity raise far more expensive. And the royalty sale would have yielded far more when oil prices were higher.

Uninspiring production growth

There's a point to all of this: Cenovus is in a very weak spot today, and that doesn't bode well for the long term either. Goldman notes how Cenovus's production growth profile to 2020 is "limited" compared with peers. This is too bad, since production growth is much cheaper these days than it was last year.

Instead, Goldman recommends you should buy companies like Suncor and **Exxon Mobil**. Put another way, there's nothing wrong with sticking to basics when investing.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date

2025/07/21

Date Created

2015/07/30

Author

bensinclair

default watermark

default watermark