



Should Cenovus Energy Inc. Buy This Texas Refinery?

Description

Reuters reported last week that French energy giant **Total SA** (NYSE:TOT) is looking for a partner for its Port Arthur refinery in Texas. The company is said to be looking to sell a 50% stake in the facility, which, given recent comparable refinery sales, could be worth US\$188 million. It's a deal that the *Reuters* article suggested would make a lot of sense for **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)). Let's take a closer look at why that could be the case.

A look at what Total is selling

Total has owned its Port Arthur facility for more than 40 years. The 225,000 barrels-per-day facility, however, has been recently upgraded, so it's still a high-quality refining asset. In fact, those recent upgrades have made it an important facility because of its ability to process low-cost oil from Canada's oil sands. That being said, Total would like to find a partner for the facility as it has been slowly shifting more of its focus away from downstream refining operations and towards oil and gas production.

Until recently, downstream refining operations were seen as a low margin drag for an oil producer. However, with the deep drop in oil prices, refineries are doing quite well, with many Gulf Cost facilities enjoying record profitability. As a result, Total is looking to cash in on this recent strength by selling a stake in the facility to a strategic partner.

Why it would make sense for Cenovus Energy

Cenovus Energy currently owns a 50% stake in two U.S. refineries that are co-owned by refining giant **Phillips 66**. Combined, the two refineries can process up to 460,000 barrels of oil per day, with about 255,000 of that capacity being heavy Canadian crude. The opportunity to add a 50% stake in Total's refinery would certainly fit within Cenovus's business model of owning a 50% stake in U.S.-based refineries that process a high volume of Canadian crude.

The other reason why such a deal would make sense is because refinery assets act as a hedge when commodity prices are weak. This is because the crack spread, or the difference between what refineries buy as crude and sell as refined products, is higher when crude prices are lower. This can really add up. In fact, for every \$1 per barrel that the crack spread widens, it boosts Cenovus's refining

cash flow by \$90 million on an annualized basis. Having access to additional refining capacity would help bolster Cenovus's profitability during lean times as it can offset weakness in its upstream operations with stronger downstream profitability.

Investor takeaway

On paper it would seem that the 50% stake Total is seeking to sell of its Port Arthur facility would make a lot of sense for Cenovus Energy to acquire. Not only does the partial stake fit within its business model, but the additional refining asset would bolster the company's ability to offset weak oil prices by providing another natural hedge. While it is only a market rumour at the moment, this is a development that Cenovus investors should keep an eye on as the deal really does make a lot of sense.

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Author

mdilallo

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