



## Cenovus Energy Inc.: Has This Stock Bottomed?

### Description

**Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) is down more than 45% in the past 12 months, and contrarian investors are wondering if the oil sands producer has finally bottomed out.

Let's take a look at the current situation to see if Cenovus deserves to go into your portfolio.

### Production and cost improvements

Cenovus is doing a good job of maintaining strong output levels while bringing down its costs.

In Q2 2015 the company actually saw oil sands production increase by 5% over the same period last year. That's pretty good considering the fact that production was halted for 11 days due to forest fires.

Operating costs dropped 30%, or \$4.64 per barrel (bbl), during the quarter and management said it is on track to achieve \$280 million in cost reductions for the year, about 40% better than the initial target.

### Balance sheet

During the quarter, Cenovus sold its royalty and free land holdings for \$3.3 billion. The company said it would record an after-tax gain of about \$1.9 billion on the sale.

The disposition helps ensure Cenovus will have ample cash to weather the storm and should only reduce future cash flow by about \$120 million per year.

### Investments

Cenovus spent \$75 million during the quarter to buy a crude-by-rail trans-loading facility. This is important for investors because the asset gives Cenovus another option to move its oil to more lucrative markets.

Western Canadian oil trades at a discount to WTI and Brent because there isn't enough pipeline capacity to move the oil to U.S. refineries or overseas clients. Cenovus is working hard to alleviate as much of that problem as possible. The terminal transaction is one positive step. The company has also

acquired a U.S. export license, which should also improve realized prices moving forward.

### **Capex and free cash flow**

In the Q2 earnings statement Cenovus said its capital budget for the year should be \$1.8-2 billion. The company reported free cash flow for Q2 of \$120 million.

### **Should you buy Cenovus?**

Oil prices remain volatile and uncertainty around the Alberta government's plans to reassess royalty programs is keeping investors on the sidelines.

Cenovus has stabilized the balance sheet and is doing a good job of reducing costs. It also has a large refining operation that provides important diversification to the revenue stream.

If you are a long-term oil bull, the stock looks attractive at the current price, but new investors should expect to see more volatility in the short term.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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