Should Investors Buy Cenovus Energy Inc. to Play an Oil Rebound?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) has been hit hard by the oil rout, but contrarian types are looking at the sell-off and wondering if things have gone too far.

Let's take a look at Cenovus to see if it deserves to be on your energy radar.

A new company

In late 2009 **Encana Corporation** made a strategic shift to focus on being a natural gas company. In doing so, it spun off the oil sands and refining assets into a new company called Cenovus.

The initial years were pretty good for Cenovus as WTI oil climbed from the financial crisis lows to trade above US$100 per barrel. Unfortunately for shareholders, the party didn't last.

Cenovus traded as high as $39 per share just four years ago. Today investors can pick it up for a mere $15 per share.

Oversold?

All of the integrated oil sands producers are down as a result of the oil rout, but Cenovus has been hit particularly hard, and some analysts are scratching their heads as to why the market is so negative.

The company has done a good job of managing costs through the downturn and raised significant capital via a successful $1.5 billion equity issue and the $3.3 billion sale of its royalty land holdings.

Unlike the pure-play producers, Cenovus has a refining business that provides a nice revenue hedge in the current environment. Operating cash flow from refining and marketing jumped to $385 million in 2015, up from $215 million the previous year.

In 2015 the company cut nearly a quarter of its workforce, lowered its non-fuel operating costs by 19%, and increased reserves by 7%.

Full-year 2015 oil sands production actually increased 9% to 140,000 barrels per day (bbl/d).

Cenovus has even been on the acquisition trail, buying a crude-by-rail loading facility. The new asset should help the company bypass some of the pipeline bottlenecks that prevent oil sands producers from moving their product to refineries. Cenovus has also received a licence to export oil from the United States, which should help it realize better prices for its product.

You would think the market would be pleased with the performance given the state of the market.

So what's the issue?

One reason for the market's lack of respect could be the fact that Cenovus is a 50% partner with **ConocoPhillips** on its oil sands facilities and a 50% owner with **Phillips 66** on its refining assets.

The lack of 100% control of the assets adds a measure of uncertainty when investors are evaluating the stock, but ConocoPhillips and Phillips 66 are very large companies with deep pockets, so there is little risk of them going out of business.

The oversized layoffs could also be scaring investors, and the company says more cuts are on the way. Cenovus just reported weaker-than-expected Q4 2015 results and is once again slashing capital and administrative expenditures to cope with low oil prices. Capital spending for 2016 is expected to be $1.2-1.3 billion, down as much as $300 million from 2015.

The good news?

Oil sands production is expected to improve again in 2016 to 144,000-157,000 bbl/d, which is a good sign given the extent of the capex cuts.

The company finished 2015 with cash and cash equivalents of $4.1 billion and another $4 billion in available credit lines. The net-debt-to-capitalization ratio stands at just 16%.

Should you buy?

Cenovus has a stable balance sheet and is sitting on some of the best resources in the oil sands region. The company is also a low-cost producer in the sector.

Management is doing a good job of navigating the downturn, and the company could use its massive cash balance to make a strategic acquisition while prices are still low.

Cenovus isn't at risk of going bust, which can't be said for many of the industry's walking wounded. If you think oil is near a bottom, the stock might be worth a shot at the current level.

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