Cenovus Energy Inc.: Are Better Days Ahead?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) has done a good job of riding out the oil rout.

Let's take a look at the current situation to see if the stock is destined to rally next year.

Tough two years

Cenovus drastically reduced staff, shut down expansion projects, and slashed its dividend over the past two years in an effort to protect cash flow amid a steep plunge in oil prices.

These moves have helped the company survive the rout, but investors still saw the stock fall from $34 in the summer of 2014 to below $14 in February this year.

Since then, oil prices have improved, and the stock has bounced nearly 50% to the current price of $20.50. That's still a far cry from the pre-crash levels, but Cenovus has fared much better than many of its oil sector peers.

Optimism heading into 2017

The difficult decisions made through the crash have positioned the company well to benefit when the market recovers, and it looks like 2017 could be the beginning of a rebound.

Why?

Cenovus recently said it plans to boost capital spending by 24% next year to $1.2-1.4 billion.

The increase comes as the company looks to resume an expansion project at its Christina Lake facility. Management halted the work during the downturn and has since managed to squeeze an additional $500 million out of the cost structure through modifications to the construction plan and revised bids from contractors.

With progress at Christina Lake and additional expansion work under way at the Foster Creek site, Cenovus is targeting a 20% year-over-year increase in oil sands production for 2017.

Total production, including the oil sands and conventional oil operations, should jump by 14% in 2017 compared to this year's guidance.

Cenovus plans to keep its sustaining capital budget in the oil sands division essentially unchanged in 2017 from the 2016 target. Going forward, management sees oil sands sustaining capital costs coming in at close to $7 per barrel, which is half the costs incurred in 2014.

Should you buy?

Investors often bypass Cenovus when looking for an oil-patch pick, but that might be a mistake. The company has reduced its cost base to the point where it is comfortable raising its capital plan significantly at current oil prices, and the huge boost to production next year bodes well for cash flow and a potential dividend increase.

If oil manages to push higher in 2017 and beyond, this stock should rack up some strong gains.

Given the ongoing volatility in the oil market, I wouldn't back up the truck, but it might be worthwhile to take a small contrarian position in Cenovus while it remains an unloved stock.

CATEGORY

1. Energy Stocks
2. Investing

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