Is Cenovus Energy Inc. a Great Contrarian Play?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) has been in a house of pain for quite some time. The stock fell off a cliff in 2014 during the rout in oil prices and has been struggling to rebound ever since. The company slashed its dividend and capital-expenditure budget to maintain a healthy balance sheet, but oil has since rebounded to the $50 level. Many pundits believe oil could head north of $60 by the conclusion of 2017 and this will put Cenovus in a very could spot.

Cenovus was able to reduce its operating costs by 14% thanks to cost-saving initiatives. The company wanted to reduce its capital expenditures by $500 million for 2016, and the management team met its goal. The management team forecasts that they will be able to cover all their operating and capital costs as well as their dividend with crude oil in the US$45-50 range.

In the current environment, there's no question that the company will be sustainable, but what if oil prices start going down again? The range is quite high, and it's possible we could see another pullback in oil prices. The management team has prepared for the worst and the cost-cutting initiatives will allow the company to be better positioned the next time another oil rout happens.

The Christina Lake project is ongoing, and it's expected that Cenovus will ramp up its investment by spending $1.2-1.4 billion this year, which represents a 24% year-over-year increase. The company estimates that $500 million worth of costs will be saved from the original budget thanks to cost-cutting initiatives.

Production is expected to happen in the latter half of 2019, and this will provide the company with a much-needed production boost that will serve as a cash flow-generating machine in the long run. Cenovus is also working on a Foster Creek project that could give its oil sands production a 20% boost compared to last year.

There's no question that the company has many projects going on, and I believe oil prices will continue to climb higher over the next few years. Cenovus will inevitably rebound, but it won't happen overnight. It could take years, but if you're a long-term investor that is bullish on the price of oil, then now may be the time to pick up shares of Cenovus.

The stock is dirt cheap right now with a 1.3 price-to-book multiple, which is way below the five-year historical average multiple of two. There's a huge margin of safety at current levels, so contrarian investors looking to limit their downside could do very well with this stock over the next few years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/03
Date Created
2017/02/14
Author
joefrenette