Is Cenovus Energy Inc. Ripe for a Rebound?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is now 51% cheaper than it was during its August 2014 peak before the oil crash. The stock had enjoyed a nice rally last year, but it has since given up a majority of its gains. There's no question that oil investors are worried that the OPEC pact may crumble, and many oil companies could be headed for an oil crash 2.0.

Cenovus reduced its dividend, so there's a mere 1.17% yield right now, but it's possible we could see this dividend raised by a substantial amount if oil prices continue climbing above the $50 level. If you're bullish on oil, then Cenovus might be the stock you're looking for.

Cenovus is an integrated oil company with terrific oil sand assets in Foster Creek, Christina Lake, and Narrows Lake. The company has an emphasis on protecting the environment and is known as one of the more responsible developers in Canada's oil sands. So, for morally conscious investors, Cenovus gets the green light.

The company reduced its capital expenditures by $500 million last year, and the management team believes that dividend payouts, and operating and capital costs will be covered if oil remains north of US$45. Oil climbed above the $50 level earlier this year but has since declined back to the high $40s. If oil prices continue to decline, then Cenovus will feel more pressure on its balance sheet.

Could the stock be headed any lower from here?

I think there's too much pessimism baked in to the stock right now. There's a lot more upside than downside, especially after its nasty decline. I'm hesitant to say that the stock has bottomed because if oil prices crash to the levels seen in the early part of last year, there will still be more pain ahead for investors. The management team is doing its best to prepare for a low oil price environment with its cost-cutting initiatives, but it won't be enough if oil continues its slide.

Cenovus is firing on all cylinders with its Christina Lake project, which is going to cost between $1.2and $1.4 billion for 2017. The company expects production to ramp up in late 2019, and this will sendfree cash flow into the atmosphere. If oil prices are significantly higher in 2019, there’s no doubt thestock of Cenovus will be sky high as well.

Cenovus is ridiculously cheap right with a 1.2 price-to-book multiple, which is much less than the company’s five-year historical average price-to-book of two. If you’re bullish on oil and can stomach a bit of volatility, then an investment in Cenovus makes a lot of sense.

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