# Cenovus Energy Inc. Tanks 12%: Time to Buy?

## Description

**Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) dropped 12% March 30 after the company announced a major acquisition.

Let's take a look at the details of the deal to see if the plunge in the stock price might provide an opportunity to buy Cenovus.



**Consolidating oil sands holdings**

Cenovus is paying $17.7 billion to buy oil sands and natural gas assets from **ConocoPhillips** ( NYSE:COP).

The two companies are currently 50% joint-venture partners on an oil sands project that includes the Foster Creek, Christina Lake, and Narrows Lake sites. Upon completion of the deal, Cenovus will be Canada's largest thermal oil sands producer with 390,00 barrels per day (bpd) production capacity.

**Adding natural gas**

In addition to the oil sands assets, Cenovus is getting the majority of ConocoPhillips's Deep Basin conventional oil and gas assets in Alberta and British Columbia. This will make Cenovus a major player in the natural gas space.

**Divesting non-core assets**

In order to help pay for the deal, Cenovus plans to sell its Pelican Lake and Suffield conventional oil assets located in Alberta. The proceeds will be applied to the company's bridge loans.

**Is Cenovus attractive today?**

The market doesn't like the deal. Cenovus dropped more than 12%, and ConocoPhillips jumped 9% on the news.

Cenovus believes it can preserve its credit ratings after the deal closes, but credit ratings agency

DBRS Ltd. said Cenovus is taking on enough debt to put pressure on the existing rating, and depending on the success of the planned non-core asset sales, a downgrade could be on the horizon.

On the positive side, Cenovus picks up top-quality oil sands assets with no integration risk because Cenovus already operates all the sites. The deal also adds more balance to the revenue stream with the strong gas exposure.

Cenovus is already an integrated energy company with downstream assets in the refining sector.

Assuming the non-core assets sales go as planned, Cenovus expects the acquisition to result in an 18% jump in funds flow per share compared to the company's original 2018 guidance.

If all the stars align, investors might even see a dividend hike in the next 12 months.

**Should you buy?**

The deal makes Cenovus Canada's third-largest oil sands producer and gives it complete control over its oil sands assets. The addition of the Deep Basin assets diversifies the resource base and provides extensive growth potential.

If you think oil prices are headed higher through the end of 2017 and beyond, the sharp drop in the stock might be an opportunity to buy.



At this point, however, I would keep any new position small. Oil prices remain volatile, and another leg to the downside could extend the Cenovus sell-off as investors might begin to worry about the debt rating.

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**Date**
2025/07/02

**Date Created**
2017/03/31
**Author**
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