



Cenovus Energy Inc.: Should You Catch This Falling Knife?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) crashed 12% on Thursday following news that the company is going to buy \$17.7 billion worth of oil and gas assets from **ConocoPhillips** ([NYSE:COP](#)). It's clear that the general public is against this deal, but I believe the huge drop is unwarranted. There's no question that Cenovus has had a lot of negative momentum, and the announcement of the deal just increased investor pessimism even more.

It's becoming a growing trend among international energy firms to dump Canadian energy assets because they're viewed as unattractive in the current environment. Kevin O'Leary isn't a huge fan of the Canadian energy sector right now either because he thinks the Alberta premier Rachel Notley is a "toxic cocktail of mediocrity and incompetence."

A lot of foreign investors have taken a pass on the Canadian energy sector because of the uncertain economic environment. O'Leary said that Notley should be eliminating corporate tax rates, royalty rates, and carbon taxes to strengthen the oil patch. He also thinks that Notley deserves 100% of the blame for the problems in the Albertan oil patch. I don't necessarily think Notley is 100% to blame, but I do think she's made the Canadian oil patch very unattractive to foreign investors.

As we head into the latter part of 2017, there may be more deals on the horizon as more firms look to liquidate their exposure to the Albertan oil patch.

There's definitely a lot of negative momentum right now, and you could get hurt by catching this falling knife, but I think it's a great strategy to buy the stock in chunks incrementally on the way down. The stock has lost over half of its value since its peak in August 2014, and it's reasonable to think that a bottom may be near with all the investor pessimism regarding the company.

The company now has a gigantic stake in the oil sands, and if you're bullish on oil and think Alberta can become attractive to international investors again, then shares of Cenovus may be an absolute steal at current levels. The management team is focused on improving long-term operational efficiency, and I think this makes the company a terrific rebound candidate over the next five years.

If you're an extremely long-term investor that doesn't mind a bit of volatility and short-term pain, then

Cenovus may be the stock you're looking for.

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