



Cenovus Energy Inc.: When Will the Bleeding Stop?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) has been a painful stock for investors to own over the past few years. The stock has lost about half its value this year, and it appears that no bottom is in sight as the stock continues its fall into the abyss.

It's apparent that the general public is not a fan of the company's recent acquisition of \$17.7 billion worth of oil sands assets from **ConocoPhillips** ([NYSE:COP](#)). Many pundits believe Cenovus got the short end of the stick and that the balance sheet is now looking quite ugly with the newfound debt.

Cenovus went all-in on the oil sands, and I think this raises the risk profile of the company by a huge amount. The balance sheet appears to be overleveraged, and if oil prices plunge below US\$45 a barrel, we could see Cenovus continue its fall into the single digits.

It's not a mystery that the general public isn't a fan of the oil sands in general. Many foreign investors have been disposing of their stakes because of the cloud of uncertainty following Alberta's oil patch. Even Canadian pundits are turned off by the oil sands. It's a dirty source of energy, and an oil sands operation is not cheap to finance, so oil sands operators with extremely stressed balance sheets and little flexibility may become completely dependent on the price of oil for survival.

I believe oil could remain lower for a longer period of time, and if this is the case, then companies that doubled down on the oil sands could be in for more years of pain. Some extremely bearish pundits even think that the oil sands may be completely abandoned a few years down the road.

Many have already thrown in the towel on the oil sands, and I believe it's a very risky proposition to increase exposure to the oil sands instead of maintaining a healthy balance sheet and preparing for a lower oil price environment.

Cenovus CEO Brian Ferguson attempted to calm investors to stop the stock from bleeding, but so far he has had no luck. Mr. Ferguson stated that economies of scale and lower costs from the acquisition will help the company thrive in the long term, but investors aren't buying it. I believe investors going to throw in the towel on the company as well as the oil sands in general.

The company has been focusing on reducing debt by selling some of its non-core assets, but this will not stop the bleeding in the short to medium term.

Cenovus is a falling knife right now, and I would recommend steering clear unless you're an aggressive investor with an iron stomach and a good reason to be bullish on the oil sands.

Stay smart. Stay hungry. Stay Foolish.

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