Cenovus Energy Inc. Shares Down 8%: What Should You Do?

Description

As the WTI oil price continued to slide (it's currently at about US$43 per barrel), **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) shares fell to a new low. What should investors do?

First, here's a quick summary of what has been happening at Cenovus Energy.

Why Cenovus Energy shares fell

Cenovus Energy made a big acquisition seemingly at the wrong time. In May, it bought $17.7 billion worth of assets from **ConocoPhillips**. The deal hasn't been received well as energy prices continue to fall.

To strengthen the balance sheet, Cenovus Energy plans to sell US$4-5 billion of non-core assets. This aligns with the company's plan to grow its free funds flow by 14% on average per year through 2021 while increasing its production at a 6% compound annual growth rate (CAGR) and reducing its debt. However, the 14% rate is based on a WTI price of US$55 per barrel.

Cenovus Energy shares fell as much as 11% during the day to a new low of $9.11 per share before recovering. It was down only 8.2% to about $9.40 per share by the market close.

Should you buy Cenovus Energy shares now?

Some analysts believe that the WTI oil price will eventually stabilize in the US$50-60 per barrel range. However, oil could fall to at least the high US$30s before heading higher again.

Often, in hindsight, the time to buy for outsized returns in an energy stock is when the market hates the stock. Right now, it certainly looks like that's the case for Cenovus Energy. The shares have declined nearly 50% in the last year and 70% in the last five.

Thomson Reuters analysts have a consensus target of $18.30 on Cenovus Energy shares for the next 12 months.

This represents a potential for an investment today to almost double. However, that target is more or less reliant on oil prices to head higher and stabilize at the US$50-60-per-barrel level.

For investors who already own Cenovus Energy shares, they may as well add more to their position to lower their average cost basis. However, this depends on how much of their portfolios are allocated to energy-related investments. Cautious investors can also wait for oil prices or for Cenovus Energy's share price to stabilize before adding.

Are you looking for a lower-risk investment?

If you're looking for a lower-risk investment in the energy space, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) shares should offer a smoother ride. Enbridge is a North American energy infrastructure leader with a network of pipelines to transport oil and gas. It transports 28% of the crude oil produced in North America and 20% of the natural gas consumed in the United States.

Moreover, Enbridge also produces, processes, and stores natural gas. As well, it has interests in wind, solar, and geothermal facilities to generate a net capacity of 2,200 MW of power.

Enbridge is a top dividend-growth stock on the Toronto Stock Exchange. The company has increased its dividend for 21 consecutive years. In the last 10 years, it has hiked its dividend at a CAGR of 13.9%. And it aims to continue increasing its dividend at a CAGR of 10-12% through 2024 with a payout ratio of 50-60% based on its available cash flow from operations.

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