Everyone Is Selling Cenovus Energy Inc.: Is it Time for You to Buy?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) shares have lost an incredible 50% of their value in the six months since the start of the year and made new all-time lows as of last month.

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Amid all the aggressive selling in the market, many deep-value and contrarian investors are now scratching their heads and asking themselves if all this has created an attractive opportunity to snap up the company's shares at a discount.

Let's take a closer look at Cenovus to see if we haven't been presented with a once-in-a-generation opportunity to become owners of this company.

Suitable for the contrarian?

Many contrarian investors will seek out stocks that have recently made 52-week lows; however, in my investing experience, this criterion is not conservative enough. Many times, shares will continue on making new lower lows.

Instead, the monthly RSI technical indicator is a more rigorous approach when trying to identify "floor" prices in a security.

Cenovus shares currently measure a 24 on the monthly RSI, indicating an extremely oversold condition and indicating that CVE shares are overdue for a reversal.

Healthy balance sheet?

Cenovus scores full marks in this regard. The company is sitting on over $3.5 billion of cash versus debt of $6.3 billion for net debt of $2.8 billion. This compares extremely favourably to shareholders' equity of $11.7 billion, or a net debt-to-equity ratio of just 0.24 times.

Cenovus's balance sheet is of absolutely no concern as it stands today.

Earnings quality

Famous value investor Benjamin Graham once said he wanted to see companies with no earnings deficits over the previous 10-year period.

Cenovus comes up just short on this criterion, posting a loss of $0.65 per share last year.

However, we should keep in mind that 2016 was the one instance in the previous 10years where the company was not profitable.

Analysts are expecting Cenvous to return to the black once again in 2017 with earnings per share forecasted to be $0.39.

Growth potential

As investors, we should want to invest where we can expect the value our shares to grow as the company grows.

In the case of Cenovus, sales in 2016 were only two-thirds of the company's 2014 results before the oil crash, which is probably a big part of the reason why Cenovus shares have fallen so mightily since then.

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Yet the company has been snapping up undervalued assets during the oil downturn. Thanks to these acquisitions, Cenovus is expected to return to growth in 2017 with estimates calling for $19 billion in sales or 56% growth year over year.

Is now the time to buy?

There's no question about it; Cenvous scores well in terms of its balance sheet, operating performance, and prospects for growth.

At the same time, however, the qualities that make it an alluring contrarian play are also why investors should take a moment to pause.

When taking a look at the company's price chart, the adage "don't try to catch a falling knife" definitely applies here.

Add to this that a good deal of the company's success is reliant on oil and gas prices, which are completely out management's control.

Those investors who are brave enough may just want to close their eyes and "pull the trigger," and if history is on their side, they'll be the ones who will enjoy the best returns.

Other, more prudent investors may opt to wait for more signs that sentiment on the company is starting to turn, such as analyst upgrades or a stabilization in the company's chart pattern.

How Foolish are you?

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