Cenvous Energy Inc. vs. Crescent Point Energy Corp.: Which Knife to Catch?

Description

Canada's oil patch is a very tough place to invest. Many investors have lost their shirts, but contrarians continue to bottom fish for some of the hardest-hit oil companies. For the average investor, investing in falling knives like **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) or **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is a risky proposition, and if you don't handle volatility well, then it's probably a good idea to forget about investing in such names to begin with.

If you're a seasoned investor with the discipline and the patience to ride out the roller-coaster drop, then it may a good time to start buying shares of beaten-up oil stocks on the way down. Cenovus and Crescent Point are two of the hardest-hit names that many contrarians have been considering, but which one is the better bet right now? I will consider the relative safety as well as the turnaround potential of these names.

Cenovus Energy Inc.

Cenovus lost over half of its value year to date following a questionable $17.7 billion deal that hurt the company's balance sheet. The general public seems to think that Cenovus got the short end of the stick with this deal. Rating agency DBRS recently downgraded the company following the deal and stated that Cenovus's credit rating would be negatively impacted.

Sure, the deal was bad, and there's a worrisome amount of debt on the books, but investors have to remember that pessimism is probably at its maximum point right now and a considerable amount of value is involved with purchasing shares at current levels.

The stock is ridiculously cheap right with a price-to-book ratio of about 0.7, but investors should keep in mind that just because a stock is cheap doesn't mean it can't get even cheaper.

I believe shares will continue to drop with all the negative momentum, so aggressive contrarians should strongly consider adding small chunks of their position on the way down.

Crescent Point Energy Corp.

Crescent Point is down over 45% year to date as investors become fed up with the company after a sequence of dividend reductions. Unlike Cenovus, Crescent Point is taking an active approach to adapt to the harsh low-oil-price environment which may stick around for longer than originally anticipated.

The management team made major cuts to its capital spending and slowed down the amount of investments. Although nobody likes a dividend cut, I believe the cut was necessary and will allow the management team more flexibility to steer the company back in the right direction in less time.

Crescent Point has $4 billion worth of net debt as of the end of the Q1 2017, so the company isn't financially distressed as some of its peers in the oil patch. I believe the management team is making the right moves to better position itself for a rebound, but the stock continues to bleed.

Better buy?

I like Crescent Point better than Cenovus right now, mainly because Crescent Point is focusing on sustainability through tough times, whereas Cenovus has doubled down with a debt-fueled acquisition that I believe was on the expensive side.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/10/02
Date Created
2017/07/05
Author
joefrenette