Cenovus Energy Inc. Divestitures on the Horizon: Time to Buy?

Description

The losses are piling up for investors of **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) as shares continue to fall further into the single digits.

The general public has pretty much given up on the oil sands with the huge cloud of uncertainty following the industry. To make matters worse, the management team at Cenovus pulled the trigger on a questionable deal worth $17.7 billion for oil sands assets from **ConocoPhillips** (NYSE:COP).

Sure, it makes sense to be a buyer during a downturn, but does it really make sense to take on a huge amount of debt when the possibility of a low oil environment could be sticking around for the long term?

Many of Cenovus's peers have been relentlessly cutting costs to adapt to the possibility of a prolonged low oil price environment, but Cenovus seems to be doubling down when it should be battening down the hatches. The risk has been raised substantially, and many investors have shown that they aren't comfortable with the company's aggressive strategy.

However, many brave contrarian investors have smelled opportunity in some of the hardest-hit firms in Canada's struggling energy patch, and Cenovus is arguably one of the most intriguing contrarian plays out there. But investors need to realize that Cenovus went from somewhat risky to extremely risky following its recent acquisition.

DBRS has taken note of this and responded by downgrading the company's credit rating.

Uncertain divestiture plan isn't attracting new investors

The balance sheet has definitely been rattled following the latest deal, but Cenovus CEO Brian Ferguson made it clear that the company plans on cutting down on debt by selling some of its non-core assets.

The divestiture plan is another uncertainty which appears to be exacerbating the stock's downfall, but over the next few months, we could start to see these non-core asset sales come to fruition. This could possibly comfort investors who are fearful of Cenovus's newfound debt.

Cenovus recently hired investment banks to sell its Weyburn and Palliser assets which could raise as much as $2.5 billion. If the deals go through, then Cenovus would be halfway to its divestiture target and the bleeding in the stock may start to finally slow.

Bottom line

It looks like Cenovus backed itself into a corner with its ConocoPhillips deal, but if you're bullish on oil and think the company's aggressive strategy will work out over the long term, then you might want to start buying shares using a dollar cost averaging strategy as shares continue to tank.

It takes a lot of nerve to make a contrarian bet in Cenovus at this point. There's going to be a lot of short-term pain, because odds are, you're going to experience double-digit losses over the short to medium term. Cenovus is down nearly 15% over the past month, 36% over the past three months, and 50% over the past year.

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