Cenovus Energy Inc.'s Strong Q2 Results Could Send the Stock Skyrocketing

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) released its Q2 earnings today. It topped $4 billion in revenue for the quarter for a year-over-year increase of over 47%. The company was also able to turn a profit of $2.6 billion, considerably better than last year's loss of $267 million. Overall, the company posted earnings per share of $2.37 for the quarter.

The one item I like about the earnings release is that even though the company had strong earnings, it was still proactive in its cost-cutting measures by reducing its planned capital expenditures by $200 million for the year. The company claims the cuts will have no impact on its planned production. This is a sign of good management that is showing a strong commitment to improving the company's bottom line through cost-cutting initiatives; it's not just throwing money at a problem.

Cenovus is also accumulating much more cash than it did a year ago. Cash from operations totaled $1.2 billion for the quarter, or more than six times last year's $205 million. Year to date, the company has had $1.1 billion more in cash from its operations, but the acquisition of assets from **ConocoPhillips** has drained a lot of cash from the company. However, if Cenovus can continue to produce solid quarters like these, then the company will soon have a stockpile of cash on its hands. Perhaps the company might even repair the dividend that it cut last year.

The company's earnings include just 45 days of the ConocoPhillips assets contributing to its activities. Next quarter should see even more integration of the assets and could amplify results for the company. Cenovus is still integrating the assets into its operations, so it may still take some time before the assets are fully operating and running at optimal levels.

Despite its acquisition of the assets from ConocoPhillips, Cenovus isn't very leveraged on its balance sheet. While a debt of $12.5 billion is large by any standard, as a percentage of equity, it is just 0.64. The company also shows good liquidity with current assets of almost $6.8 billion that are well in excess of its current liabilities, which stand at $4.7 billion, resulting in a current ratio of 1.42. From the balance sheet, I do not see any concerns for Cenovus and think it is in a good position, even if oil prices decline.

Prior to today's open, Cenovus's stock price had been on a meteoric decline this year, dropping 51% of its value year to date. This earnings result will certainly give the stock a much-needed boost. Early trading today showed the stock up over 5% and breaking the $10 per share mark. If you haven't bought the stock yet, it could be an excellent time to get in before it climbs even higher.

There are questions facing the company; how will its planned asset sales go? And will the sales fetch the ~$4 billion in proceeds that Cenovus is expecting? A poor sale or no sale at all could have a negative impact on the stock. However, unless it is a catastrophic failure, I wouldn't expect it to have a profound or lasting impact.

It certainly looks like Cenovus has turned a corner and is back to regularly posting profits. Cenovus could be a great investment again.

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Author
djagielski