With a Pop in Earnings, Cenovus Energy Inc. Could Be a Buy

Description

Certain commodities have not been a good investment in recent years. In the case of oil, the word *terrible* comes to mind. **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) is a well-regarded Calgary-based oil company which has had a bumpy 2017. Shares are down 50% year to date. Rock bottom would appear to be in June, when the company's CEO Brian Ferguson announced his retirement, which surprised and frustrated shareholders.

But things are looking frothy as of late. Cenovus is one of the most actively traded TSX stocks, with trade volumes of 110 and 92 million for June and July, respectively, which is more than twice the monthly average.

Summary:

- Current debt-to-equity of 0.65 is slightly higher than 10-year average of 0.6.
- Earnings per share (EPS) are historically $1.4; earnings popped to just under $3 per share in the most recent quarter.
- The dividend yield tends to bounce around; the company cut its dividend by 75% in 2016; the current dividend yield is 1.97%.
- The dividend payout ranges from 15% to 120%.
- The price-to-earnings (P/E) ratio is currently 4.3—3significantly lower than the industry average and historical norms.

Follow the crude

This exchanged-traded note, **iPath S&P GSCI Crude Oil Total Return Index** (NYSE:OIL), and this exchange-traded fund **Horizons BetaPro NYMEX Crude Oil Bull+ ETF** (TSX:HOU), are examples of investments in crude oil itself.

Looking at a five-year chart, Cenovus has been virtually indistinguishable from a crude oil fund, largely because of the steady decline in oil prices over this time. For the sake of clarity, however, Cenovus's stock price has moved around with 87% direct agreement with OIL for the past 10 years. It is therefore very hard to see this stock in isolation. You've got to follow crude oil prices.

Drilling down on the recent quarter

The second-quarter earnings were up largely because the company acquired assets that were held by **ConocoPhillips**. Emboldened by the high output from the oil sands and deep basin sites, Cenovus intends to reduce activity on natural gas and focus on oil.

The company has reported incremental improvement in the steam-assisted gravity drainage technology at the Foster Creek and Christina Lake oil sands sites. A low steam-to-oil ratio is a sign of efficiency. Of course, these efficiencies alone cannot explain the 84% increase in production from the oil sands.

Key steps going into the next quarter include whether Cenovus can maintain production levels, whether the company can fetch a decent buck for the natural gas assets, and, most of all, whether the price of crude oil will start to tick upwards in a meaningfully way.

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bmacintosh