Cenovus Energy Inc. and Crescent Point Energy Corp. Are Racing to the Bottom

Description

Many contrarian investors who are bullish on oil and are looking for major gains in a potential rebound have had **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) on their radars.

Both stocks have been hammered lately with CPG and CVE losing ~60% and ~50% of their values over the past year, respectively. At this point, both companies are falling knives. Bottom fishers have taken a hit on the chin as both companies's stock prices continue their fall into the single digits.

Is it reckless to own shares of either of these companies right now?

Not necessarily. If you're bullish on a rebound for oil, I think there's a substantial amount of upside from here if you're willing to realize some painful losses over the short and medium term. Oil prices have rebounded to the $40 levels, which is better than the trough of the oil crisis earlier last year, but shares of CVE and CPG are still significantly lower right now than they were then.

It doesn't help that foreign investors have lost confidence in Canada's oil patch. Even Canadian pundits like Kevin O'Leary are turned off by Canada's energy sector, so it's no surprise that foreign investors have been disposing of their oil sands assets over the past year.

How low can CVE and CPG go?

That's the million-dollar question right now. When shares started modestly rallying last year as oil prices slowly rebounded, not many would have predicted that a catastrophic plunge would be on the horizon for these two "blue-chip" oil companies.

Should you catch a falling knife?

CVE and CPG are not for the faint of heart, as more downside could be in the cards going forward. Just because shares have dropped so much doesn't mean that shares can't continue to drop a lot more.

If you’ve got a stomach of steel and a good reason to be bullish on oil and the policies surrounding Canada’s energy sector, then it might be a good time to start buying small chunks on weakness to reduce risk and get a better cost basis. There’s no bell that goes off when shares hit a bottom, so it’s important to continue buying incrementally, regardless of where the stock is heading.

Better buy?

CVE and CPG are both dirt-cheap right now, but I think CPG is the “safer” bet right now. Cenovus recently sacrificed the health of its balance sheet by making a ridiculous $17.7 billion acquisition of oil and gas assets in times of turmoil. Meanwhile, CPG has been doing a better job of “battening down the hatches” to prepare for the worst to stick around a bit longer.

CVE is going all-in at a tough time, and if you’re a fan of extremely high-risk/high-reward scenarios, CVE may be your pick.

Either way, you’d better be in it for the long term, because you’ll probably witness huge losses over the short term.

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