



Value Investors: Cenovus Energy Inc. Asset Sales Create Buying Opportunity

Description

With oil prices appearing to have stabilized, inching higher amid improving global supply and demand fundamentals in the sector, companies like **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) are beginning to once again get the (positive) attention they deserve.

After agreeing to buy out **ConocoPhillips's** share in a joint venture, purchasing Canadian oil sands and Alberta deep-basin natural gas assets for \$17.7 billion at the end of March, the market has not been pleased with the pressure this deal has had on Cenovus's capital structure. To make the deal work, Cenovus has been forced to raise a substantial amount of debt at a time when many investors have balked at the idea of owning a highly levered oil and gas play — particularly one focused on building the Canadian oil sands.

To rid the company of the perception that this deal would result in an onerous amount of debt, Cenovus's management team has set out to sell of \$5 billion of non-core assets linked to the deal to pay down debt — a move which has largely been cheered by the market. Last week, news that a former senior executive of Cenovus had agreed to take on a major Albertan natural gas project linked to the ConocoPhillips deal has propelled shares of Cenovus substantially higher (more than 15% higher by the week's end). The proposed deal could carry a price tag between \$450 million and \$600 million, according to analysis of what the assets may be worth.

This deal follows previous divestitures from Cenovus, including the sale of the company's Pelican Lake heavy oil assets to **Canadian Natural Resources Ltd.** earlier this month for just under \$1 billion. Other Cenovus assets are expected to be sold by the end of fiscal 2017, including the company's Palliser natural gas property and Wayburn oil property — assets which should help propel Cenovus toward its \$5 billion goal in the near term.

Bottom line

While I remain cautious with respect to Cenovus's ability to thrive in the long run due to concerns about the long-term price structure of crude oil amid changing global macroeconomic drivers in the commodities sector, I do agree that the recent planned divestitures from Cenovus's management team

indicate the company is taking the right approach to creating long-term value in this challenging sector.

Right now may be the time to begin hunting for value in the oil patch, as prices for many major players have become severely depressed and, in many cases, have fallen below intrinsic book value. Cenovus currently trades at around 0.8 price-to-book value, placing this company well within the realm of some of the best value stocks on the TSX today.

Stay Foolish, my friends.

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1. Editor's Choice

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1. NYSE:CVE (Cenovus Energy Inc.)
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