Which Is the Better Buy: Canadian Natural Resources Limited or Cenovus Energy Inc.?

Description

We've seen a lot of movement in the oil and gas industry this year with acquisitions, sales, divestitures, companies leaving the oil sands, and others doubling down. It's that latter group that I'm going to have a look at, namely **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ).

Both of these companies made big bets this year that oil prices will increase and that the oil and gas industry will make a big recovery. It's far too early to tell how things will shake out, but let's take a look at how each company has done since their big transactions this year and which one might be the better buy today.

Cenovus loses the trust of its investors

It was in March of this year that Cenovus announced it would be purchasing $17.7 billion worth of assets from **ConocoPhillips**. That deal saw a lot of heat come to then-CEO Brian Ferguson, as shareholders were upset that the transaction was not put to a vote. Investors punished the company heavily as the stock, which was trading at $17 a share when the deal was announced, eventually crashed to an all-time low of $8.89.

The stock is still recovering and, at $12 a share, is still trading well below book value at a price-to-book ratio of just 0.75. The company has made strides in paying down its debt as it promised, but the stock has struggled to pull itself out of the abyss, as investors are hesitant about the company's direction and its increased exposure to the oil sands.

Canadian Natural Resources sees less fallout from its transaction

Canadian Natural Resources was also involved in an acquisition, where it purchased $12.74 billion worth of assets from **Royal Dutch Shell Plc**. The transaction received a lot less negative press and, unlike Cenovus, Canadian Natural Resources actually saw its stock price rise. However, ultimately, the share price dropped over 15%, but that is a far cry from the nearly 50% cut that Cenovus took.

Where oil prices have gone since

It seems like an eternity ago when the price of West Texas Intermediate was trading regularly above $50, which is where oil was when 2017 started, and it wasn't until March that oil prices started crashing (again). At under $50 a barrel, there has been a bit of a recovery in the price of oil since that decline, but prices are still lower than when these deals were struck.

Is either company a good buy today?

Whether you believe oil and gas stocks are a good buy will likely depend on your outlook for oil prices. Depending on which analyst you listen to, you could believe that oil could hit $100 within a few years, or that it could continue to plummet further. The truth usually lies somewhere in the middle.

Given the stability we've seen lately in oil prices and how well both companies have been at turning in positive results — both Cenovus and Canadian Natural Resources have had three straight profitable quarters — both might be good investments if the price of oil remains stable. However, Cenovus would be my pick, since the stock has more upside given the significant decline it has been on for much of the year.

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