Contrarian Investors: Should You Buy Cenovus Energy Inc. or Cameco Corp.?

Description

Contrarian investors are always searching for beaten-up stocks that might be on the verge of a recovery.

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Let's take a look at **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) to see if one is attractive today.

Cenovus

Cenovus spent $17.7 billion earlier this year to buy out its oil sands partner, **ConocoPhillips**. At first glance, the deal should be positive, as Cenovus doubled its production and resource base on assets it knows well and at facilities it already operates. The purchase also came with attractive properties in the growing Deep Basin plays in Alberta and British Columbia.

The market didn't like the deal, however, and Cenovus saw its share price drop 50% through the first half of this year.

What's the issue?

The company took on a large bridge loan to cover part of the acquisition price, while it searches for buyers of non-core assets. Cenovus hopes to raise $4-5 billion through the disposition of these properties, but the market is concerned it might not hit the target.

The company recently announced two deals totaling about $1.5 billion, so progress is being made. These sales brought some confidence back to the stock, and Cenovus is up about 11% in the past month.

If the current oil rally continues, and Cenovus finds buyers for the remaining assets at reasonable prices, the stock should continue to move higher.

Cameco

Cameo is a low-cost producer with some of the planet's richest uranium reserves.

Unfortunately, the uranium market is stuck in a multi-year slump, and there is little evidence of a near-term recovery. Secondary supplies continue to fill demand gaps, and the expected restart of Japan's nuclear reactors is taking much longer than expected.

Japan shut down is entire fleet of reactors after the 2011 Fukushima disaster. Legal battles and operational issues have hindered the restart process, and only five of the country's operable 48 facilities are back in commercial operation.

Around the world, more than 50 new reactors are being built, which should support long-term uranium demand, and there is a chance the market could find itself in a shortage situation at some point down the road, given the lack of investment in new projects.

For the moment, however, uranium spot prices remain stuck near US$20 per pound, down from US$70 in early 2011.

Is one a better bet?

Cenovus probably offers contrarian investors more upside potential in the near term.

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2. NYSE:CVE (Cenovus Energy Inc.)
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