Is Cenovus Energy Inc. a Buy After Announcing More Aggressive Cuts?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) saw its share price drop more than 5% on Thursday, as the company announced it would be accelerating its cost-cutting efforts. Cenovus said that it would look to reduce its workforce by 15%, which will mean more than 500 jobs will be eliminated in what will be just the latest round of cuts for the company.

Since 2015, Cenovus has eliminated nearly 2,000 jobs as it has tried to look for ways to reduce costs in an attempt to stay competitive amid a lower price of oil.

Alex Pourbaix, the new CEO that took over from Brian Ferguson last month, is looking to accelerate the cost reductions that were originally planned by his predecessor. The original goal was to shave off as much as $1 billion in costs over the next three years, but Pourbaix is planning to achieve that in just two years.

One way that Cenovus is going to accomplish that is by reducing its capital expenditures for 2018.

Cenovus has had a challenging 2017

Early in the year, the company announced it would be buying assets from **ConocoPhillips** in a deal that would add a lot of debt to its books, and that would not be voted on by shareholders.

This did not sit well with investors, and Cenovus ultimately pledged to sell some assets to bring down its debt, which it ultimately did, although the asset sales came in a bit lower than expected.

Unfortunately, much of the damage had already been done to the stock, and year to date, the share price has plummeted more than 40%, and that figure would be even lower if not for the stock’s recent recovery.

Financial performance has improved this year

Although Cenovus has struggled to cope with a lower price of oil, the company saw sales growth of 49% in its most recent quarter, and it has turned a profit in three of the last four quarters. These latest cuts will add even more to the company's bottom line, and that should be welcome news to investors.

Rising oil prices could see the stock take off in 2018

With OPEC announcing that supply cuts will be extended, possibly until the end of 2018, that could result in oil prices continuing to climb next year. If that happens, Cenovus and other oil and gas stocks will stand to benefit, as that will push both revenues and profits up.

We might not see oil prices return to the highs we saw in 2014, but many oil and gas companies no longer need $100 oil to be profitable.

Should you buy Cenovus today?

The company's stock price currently trades at a little more than 0.7 times its book value, and it could be a great investment with lots of potential upside next year. Given that the company is already performing well with a low price of oil, there could be significant potential for the stock if oil prices continue to rise.

Cenovus has had a dreadful year that saw the company's share price hit a new all-time low after a lot of negative press. It's unlikely we'll see a repeat of that next year, and that's why the stock might be a good buy today, while the price is still low.

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