



Time to Buy Cenovus Energy Inc.?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) exploded out of the gates in the first two days of trading in 2018, and investors are wondering if more gains are on the way.

Let's take a look at the beleaguered oil sands producer to see if it deserves to be in your [portfolio](#).

Tough 2017

Cenovus saw its stock plunge from \$20 per share to below \$10 in 2017, as weak oil prices and an unpopular takeover sent investors running for the exit.

What happened?

The company made a big bet early last year when it bought out its oil sands partner **ConocoPhillips** for \$17.7 billion. The deal appears to make sense, as Cenovus instantly doubled production and reserves on assets it already operates. In addition, the company picked up important properties in the Deep Basin plays in Alberta and British Columbia.

Investors, however, didn't like the move, as Cenovus took on a \$3.6 billion bridge loan while it shopped non-core assets.

As oil prices fell, the market thought Cenovus might struggle to find buyers at the prices it wanted, but things have worked out reasonably well.

Oil recovered through the back half of 2017, and Cenovus managed to sell its properties for enough money to cover the bridge loan. The company received \$940 million for the Weyburn asset, \$1.3 billion for the Palliser assets, about \$500 million for the Suffield assets, and close to \$1 billion for the Pelican Lake operations.

New CEO

At the end of October, Cenovus announced Alex Pourbaix as its new president and CEO. In a

December update, Pourbaix said the company plans to focus on deleveraging the balance sheet through 2018, while reducing costs and spending about \$1.7 billion to primarily sustain base production at the oil sands operations.

Oil outlook

WTI oil continues to move higher, and that is bringing investors back into the troubled energy producers. One thing to keep in mind is the fact that Western Canadian Select (WCS) prices are lower than WTI. For example, the average differential in November was US\$11.02 per barrel.

However, WCS prices are rising in step with the broader improvements in the market.

If Keystone XL and the Trans Mountain expansion projects get built, Canadian producers should see the differential narrow.

Should you buy?

Cenovus trades at less than \$13 per share at the time of writing. A year ago, it was \$20 per share at oil prices that were lower than the current level, so the stock might be oversold.

If you are an oil bull and have a [contrarian](#) investing style, it might be worthwhile to add Cenovus to the portfolio while the stock remains out of favour.

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