Long-Term Investors: Is Now the Time to Consider Cenovus Energy Inc.?

Description

The past few years have not been kind to Canadian oil producers such as **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE). Heavy oil prices have crept downward, investors have placed more scrutiny on the acquisition practices and debt loads of oil producers, and the spread between heavy Western Canadian crude and lighter WTI crude has grown to a chasm of gigantic proportions.

With few tailwinds on the horizon, strong headwinds have suppressed the positive outlook, which was once prevalent in Canada's booming oil industry. In this article, I'm going to dive in to what has changed at Cenovus following its highly publicized $17.2 billion acquisition of **ConocoPhillips's** oil sands assets last year and look at whether shares of Cenovus present a compelling investment opportunity at current levels.

As with other oil and gas firms operating in Canada, current depressed valuations have made specific companies interesting value investment opportunities today. While it appears that little may be on the horizon in the way of tailwinds to take this sector higher in the near term, the long-term ability of firms such as Cenovus to leverage its asset base to continue to churn out high return on equity (ROE) and return on asset (ROA) numbers remains; Cenovus posted trailing 12-month ROE and ROA numbers of 21.3% and 10.2%, respectively — an impressive feat in this current commodity price environment.

Cenovus's management team has also been overhauled, and the company appears to be doing whatever it can to placate investors following its aforementioned large oil sands acquisition last year. In cutting costs (headcount) and planning more asset sales, the new management team at Cenovus is hoping investors will buy in to the long-term plan of the company — a solid platform for long-term investors to buy into, but one which is likely to make traders nervous.

I remain cautious with respect to Cenovus's near- and mid-term prospects, given the wide chasm which has manifested itself in recent years between the price for heavy Canadian crude produced from the oil sands and the global market for light, sweet crude represented by WTI or Brent numbers. The massive acquisition of ConocoPhillip's assets is likely to be an overhang that investors are unlikely to push aside until the deal completes and the company shows what the integrated earnings picture will look like. Rising interest rates mean debt loads will be scrutinized further and also indicate secondary share issuances may be on the horizon — a phenomenon that may dilute existing shareholders further.

Bottom line

With new pipeline capacity expected to come online in the medium term, and share issuances potentially on the horizon for Cenovus, I would recommend investors keep this company on their watch lists for the next one to two years before jumping on board.

I believe Cenovus's management team will work hard to make its ConocoPhillips acquisition make sense; however, as with many other investors, I will need to see more information on how the integrated firm will be able to perform in a low WCS price environment before taking any sort of serious action on this company.

Stay Foolish, my friends.

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