



Contrarian Investors: Is it Time to Buy Cenovus Energy Inc. or Crescent Point Energy Corp.?

Description

Contrarian investors are always searching for beaten-up stocks that could be on the verge of a [rebound](#).

The Canadian oil patch is full of such companies, and two of the popular names that often come up around the water cooler are **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) and **Crescent Point Energy Corp.** ([TSX:CPG](#))([NYSE:CPG](#)).

Let's take a look at the two producers to see if one deserves to be in your portfolio.

Cenovus

Cenovus spent \$17.5 billion last year to buy out its oil sands partner, **ConocoPhillips**. On the surface, the move appeared to make sense. Cenovus instantly doubled its production and resource base on assets it already operated and knew very well.

The market, however, didn't like the deal and sent the stock into a nasty downtrend. Cenovus fell from close to \$17.50 per share at the end of March to \$9 by June.

Investors were concerned the company would not find buyers willing to pay enough for non-core assets that were being sold to cover a \$3.5 billion bridge loan taken to close the acquisition. In the end, oil prices rallied through the summer and into the fall, providing buyers with some optimism, and enabling Cenovus to sell the assets for enough to meet its goal.

The stock caught a bit of a tailwind from late August through early November, rising to nearly \$14.50 per share, but it has since pulled back to about \$10.

Investors are now concerned the lack of adequate pipeline capacity will prevent Canadian [oil sands](#) producers from getting their product to market in the coming years. The resources might be vast, and costs are definitely coming down, but that's not much help if there is no way to get the oil to market.

Crescent Point

Crescent Point was a \$45 stock in 2014 and paid a monthly dividend of \$0.23 per share. Today, investors can pick up the shares for less than \$9 each, and the dividend is just \$0.03. That's still good for a 4% yield, and the current payout should be sustainable if oil holds its gains or moves higher.

Crescent Point finished 2017 with net debt of \$4 billion, which is a lot for a business with a current market capitalization of \$4.7 billion. That said, the company is well within its debt covenants and finished 2017 with available borrowing capacity of about \$1.5 billion, so there isn't a near-term liquidity concern. The debt load, however, is one reason the stock hasn't been able to get much traction. Weak pricing for Canadian oil is another factor.

On the positive side, production rose 5% in 2017 compared to the previous year and is expected to increase again in 2018.

Is one an attractive bet?

You have to be an oil bull to buy any of the producers today. If you fall in that camp, both stocks have the potential to deliver some nice gains in the coming years.

Regarding these particular players, I would probably make Crescent Point the first choice for a contrarian portfolio. The company has a strong light-oil-weighted asset base and can get product to market easier than Cenovus. Crescent Point is growing production, and you get a 4% yield while you wait for oil to move higher.

Cenovus is an interesting long-term play, but the main concern lies around the pipeline issues, and there is no way of knowing when, or if, that will be sorted out.

CATEGORY

1. Energy Stocks
2. Investing

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