# 3 Important Takeaways From Cenovus Energy Inc.'s Q1 Results

## Description

**Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) continues to struggle, as Q1 results last week were disappointing, despite an improved performance from the company's top line. Total sales of $4.6 billion for the quarter were up an impressive 30% year over year, but it wasn't enough for Cenovus to avoid staying out of the red.

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**What was behind the poor results?**

Cenovus was weighed down heavily in Q1 by risk-management losses, which saddled the company with $330 million in added costs for the quarter, whereas a year ago a gain of $200 million helped the company finish well above breakeven. Foreign exchange also made a big swing in the wrong direction, as the company incurred $277 million in expenses from that line item, which, a year ago, produced a gain of $76 million. On top of all that, Cenovus also incurred a cost of $117 million related to last year's acquisition and a contingent payment it owes to **ConocoPhillips** (NYSE:COP).

These three items resulted in Cenovus incurring $1 billion more in expenses this quarter than it did a year ago, and with other operational expenses rising as well, it's easy to see how the company finished the quarter so poorly.

Although Cenovus is trading at a big discount to its book value, there are three reasons I'd be hesitant to invest today.

**The company was negatively impacted by rising oil prices**

One of the big expenses this past quarter was the company's contingent payment to ConocoPhillips, which was re-measured and resulted in Cenovus adding $117 million in costs to its financials. The agreement between the two companies says that when average oil prices for Western Canadian Select exceed $52 per barrel, Cenovus will need to pay $6 million for each dollar that it is higher. The arrangement is for five years and will last until 2022. While the benefits will outweigh the costs if oil prices rise, it's another way for the company's performance to be dragged down.

**Non-operational items played too big of a role in the company’s performance**

It’s frustrating for investors to see that a company that had strong growth in sales perform worse in the end. Higher sales should mean that more profits flow to the bottom line, and we’ve seen the opposite happen here. Due to the hedging and risk-management activities we’ve seen oil and gas companies engage in, these are swings that investors can’t ignore.

However, Cenovus CEO Alex Pourbaix indicated the company would not be as aggressive as it was under previous management, stating, “I don’t think you will ever see this company hedge at the very high levels that you’ve seen this year and in the back half of last year.”

**The loss would have been worse if not for income tax recoveries and discontinued operations**

While you might say that the negative effects of the company’s hedging and risk-management activities were temporary, you could also say the same about the tax recoveries and earnings from discontinued operations that Cenovus benefited from in Q1. Without an income tax recovery of $158 million and earnings from discontinued operations totaling $260 million, the quarter could have been even worse than it was.

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