Cenovus Energy Inc. (TSX:CVE) in the Red for Q2 Despite Strong Sales Growth

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) released its quarterly results on Thursday, and despite an improved top line, the company couldn't avoid staying out of the red.

Let's take a look at some key items from the company's financials:

Item	Current Quarter	Previous Year	Change ($)
Revenue	$6,027	$4,081	$1,946
Transportation and Blending	$1,665	$887	$778
(Gain) Loss on Risk Management	$575	($287)	$862
Foreign Exchange (Gain) Loss, Net	$212	($410)	$622
Revaluation (Gain)	$0	($2,555)	$2,555
Re-measurement of contingent payment	$377	($66)	$443
Income Tax Expense (Recovery)	$20	$668	($648)
Total of above expense items	$2,849	($1,763)	$4,612
Net Earnings (Loss)	**($418)**	**$2,617**	**$3,035**

**Amounts in millions*

A quick glance at the above table can quickly show us why Cenovus had a disappointing bottom line despite achieving strong sales growth. Many items bringing down the company's earnings were those that were beyond its control. Even though sales were up 48%, it was more than offset by gains and revaluations that had positive impacts on the prior year's results, which were absent or had turned into losses this quarter.

Income tax expense was one of the rare variances where the dollar amount was big and it helped the current quarter's results. Besides that, Cenovus had many items working against it this quarter that not only prevented it from being an improved quarter from last year, but also put it into a net loss.

In Q1, we saw similar items impact the company's financials, and so this isn't a big surprise that we've seen hedging, foreign exchange; the deal with **ConocoPhillips** weighed down what should have otherwise been a positive quarter for Cenovus. The concerns that I highlighted then are still relevant now, and it's going to be a bit of an uphill challenge for Cenovus as it continues to deal with these headwinds.

The problem for investors is that the company's operations are much improved from last year and Cenovus could be wasting these improved quarters, especially if the price of oil goes back down, as production is expected to increase in other parts of the world.

When a company has such a significant improvement in sales and it still can't turn a profit, there are going to be some big concerns for investors.

Should you consider buying Cenovus on these results?

Cenovus definitely had some mixed results here, but from an operational point of view, it was definitely a success. Had the company had not incurred a loss from foreign exchange or risk management, it would have been able to turn a profit. If Cenovus can avoid these non-operational items impacting its bottom line, it could string together some solid quarters.

There is definitely a lot of potential upside for Cenovus, as there is still a lot of bearish activity surrounding the stock. It was down 1% on the results, and although year to date the share price had risen more than 15%, it has still failed to show much stability over the past year. It's still a good value buy as the stock continues to trade below its book value.

Unfortunately, with all the risk and uncertainty that still exists in the industry, Cenovus is still not a stock that I'd consider purchasing.

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