This Is Why Cenovus Energy Inc. (TSX:CVE) Stock Is Up 42% in the Last 5 Months

Description

Shares in **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) are up 42% in the last five months since the beginning of March.

While some may have seen it coming, there is good reason to believe that even following the impressive run, there may still be some gas left in the proverbial tank of the Canadian integrated oil and gas producer.

For most of the past year, Cenovus shares have been unfairly punished by the market for two key reasons.

One is the markets unwillingness to accept and adjust to the firms acquisition of its outstanding 50% interest in the FCCL partnership with **ConocoPhillips** (NYSE:COP).

The deal effectively doubled Cenovus total production capacity, which on the surface sounds great, but it wasn't long before it became apparent that the market had some concerns with the deal.

Namely, that Cenovus took on $7.4 as a result of the acquisition.

That in turn led to fears that Cenovus would be unable to service the additional debt load while simultaneously funding new growth projects and financing its dividend.

Those fears about the sustainability of the company's dividend may very well have been exacerbated by the fact that Cenovus had already cut its dividend twice amidst the slump in oil prices — once in 2015 and again in 2016.

Cenovus shares yield 1.50% today.

Making matters worse was the slump in oil prices that plagued the Canadian market to start the year.

A troublesome bottleneck had prevented Canadian crude from reaching American markets, which led to an oversupply in the oil sands and sent prices crashing.

That prevented several key Canadian energy players from participating in the rally of U.S. energy stocks that took place earlier this year while the price of West Texas Intermediate Crude (WTIC) soared towards $70 per barrel.

But the underappreciated aspect of Cenovus operations that ultimately helped the company outperform much of the market was its integrated business model.

Unlike many of its Canadian peers, which are only involved in exploration and production activities, as an integrated producer, Cenovus not only takes the crude oil out of the ground, but it also owns "downstream" operations which take that crude and converts it to end products like gasoline, diesel and jet fuel.

So effectively, while the company's "upstream" operations are affected by lower crude prices, at least part of this is offset by the fact that the company can then buy the cheap crude from itself at discounted prices and in doing so, boost the returns of its downstream operations.

Bottom line

While Cenovus stock only pays a modest dividend yield today, it does hold some characteristics that make it an "under the radar" value play.

Not only are shares trading below their current book value, but the company's underlying cash flows following last year's FCCL acquisition suggests that it should have the ability to sustain several years of dividend increases, meaning that the current yield may in fact be considerably understated.

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