Should Cenovus Energy Inc. (TSX:CVE) Stock Be in Your Portfolio Right Now?

Description

Oil prices have bounced around in recent weeks, but the market continues to hold up well after a strong rally over the past 12 months.

The impact has been mixed in the Canadian energy patch, with some names currently trading near their highs, while others continue to struggle at depressed levels.

Let's take a look at **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) to see if it deserves to be on your buy list right now.

Rough ride

Cenovus took a big hit last year after it spent $17.7 billion to buy out its oil sands partner, **ConocoPhillips**.

At first glance, the deal appeared to make strategic sense, which could prove to be a huge win over the long haul. Cenovus already operated the oil sands facilities, so it knew the assets well and instantly doubled its production and resource base. In addition, Cenovus acquired key holdings in the growing Deep Basin plays.

Oil prices were on the slide at the time the deal was done, and continued to fall into the first part of last summer. In order to protect cash flow as it sought to find buyers for non-core assets to cover a $3.6 bridge loan, Cenovus hedged 80% of its first-half 2018 oil production at prices that turned out to be much lower than the market value.

Oil rallied through the back half of last year, thereby enabling Cenovus to monetize enough assets to cover the bridge loan. The continued strength in oil, however, has made the hedges very costly for the company.

In Q1 2018, Cenovus took a realized risk management loss of $469 million. In Q2, the hit was $697 million.

Opportunity

Cenovus says its hedge positions now cover just 37% of anticipated liquids production for the remainder of 2018, so the risk management charges should drop in the last two quarters of the year.

Total production from the oil sands, Deep Basin, and natural gas assets came in at 518,530 barrels of oil equivalent per day (boe/d) for the second quarter, representing a 61% increase over the same period last year.

Cenovus has committed capacity on the Keystone XL and Trans Mountain Expansion projects. If both pipelines actually get built, Cenovus will have access to international pricing for more of its product.

In addition, a shortage of crude-by-rail capacity is being addressed and improvements should continue in the coming months and into next year.

As a result, the worst days could be behind Cenvous.

Dividend

Cenovus slashed the dividend during the downturn in an effort to preserve cash flow. The current quarterly dividend of $0.05 per share provides a yield of 1.5%.

Once the hedge positions expire, investors could see a dividend increase in 2019.

Should you buy?

The stock currently trades for less than $13 per share at the time of writing compared to $30 five years ago. If you are an oil bull and think Trans Mountain and Keystone XL will be built, Cenovus looks attractive today.

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