Cenovus Energy Inc. (TSX:CVE) Investors: Get Ready for a Blowout Year

Description

Yes, Canadian crude is selling at a discount relative to Western Texas Intermediate Crude (WTI) due to pipeline constraints that seem insurmountable.

But if we look at price realizations for two of the biggest Canadian energy companies, **Canadian Natural Resources Ltd**. (TSX:CNQ)(NYSE:CNQ) and **Cenovus Energy Inc**. (TSX:CVE)(NYSE:CVE), we can see that the trend is up and the increases are significant.

In the second quarter of 2018, although Canadian Natural's realized pricing was 10% lower than WTI prices, it was still up a whopping 30% compared to the same period last year.

And Cenovus had a similar experience, with its realized price up almost 30% compared to the same period last year.

At the time of writing, WTI crude has once again surpassed the $70 mark, adding optimism and boosting energy stock prices across the board.

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Let's take a closer look at these two energy giants and their investment merits.

With a 3.14% dividend yield, a stock price that has almost doubled from its 2016 lows, and a predictable and reliable stream of cash flow with little reserve replacement risk, Canadian Natural remains a top pick for energy exposure.

Strong cash flow, continued debt reduction, and an increasing dividend is what has characterized this company's results, are what makes it a top energy stock.

In fact, in the first six months of 2018, Canadian Natural has seen a 38% increase in funds from operations per share and free cash flow of approximately $2.2 billion.

Cenovus Energy is another attractive energy stock despite seeing discounted pricing for its oil relative to WTI.

The company has a large resource base, good growth potential from its oil sands expansions, and an attractive valuation.

Cenovus Energy stock's dividend yield is lower than CNQ stock, but with Cenovus we get a lower valuation due to its financial leverage, which is quite high relative to its peers.

But going forward, investors can expect the company's asset disposition program to generate significant funds that will be put to work to pay off debt, thereby improving the company's balance sheet and risk profile.

And the company's 2017 purchase of assets from ConocoPhillips, which is what sent debt levels higher, will pay off in 2019 as cash flows are expected to soar.

Cost reduction, debt reduction, and an unrolling of the poorly timed hedge book should also act as catalysts for long term value creation.

Cenovus stock continues to trade below book value, at 0.74 times.

An improvement in the company's balance sheet, hedge book, and/or market access, will send the stock soaring higher to close this valuation gap.

In summary, oil keeps making its way higher, and even though these Canadian energy stocks receive a discount for their oil, they are still running very profitable, well-tuned businesses that are generating big cash flows.

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