

Is Cenovus Energy Inc. (TSX:CVE) a Contrarian Buy Today?

Description

The recent plunge in oil prices is taking a toll on Canadian [oil producers](#), and some stocks are now down to levels that could be attractive.

Many investors are simply giving the sector a wide berth regardless of how cheap the stocks look, but those with a contrarian style might want to start kicking the tires on a few names in the industry.

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

Big acquisition

Cenovus made a huge bet on the future of the Canadian oil market last year when it spent \$17.7 to buy out its oil sands partner, **ConocoPhillips**. The deal instantly doubled production and the resource base at the oil sands operations, which Cenovus already operated, and came with key assets in the growing Deep Basin plays.

Unfortunately, Cenovus had to sell a portfolio of non-core assets at cheap prices to cover a \$3.6 billion bridge loan it used to close the acquisition. In addition, management entered hedging positions on 80% of production through the first half of 2018 at prices that were significantly lower than where the market ended up in that time frame. As a result, the company booked a risk management loss of \$469 million in Q1 and \$697 million in Q2 2018.

On the positive side, most of that pain should be over, and Cenovus delivered a decent third quarter. The company generated free funds flow of \$700 million in the quarter supported by improved performance and margins at the refining operations and higher year-over-year oil prices compared to Q3 2017.

Net debt dropped \$1.6 billion, as Cenovus used cash from operations and the \$625 million in proceeds from an asset sale to strengthen the balance sheet.

Pipeline bottlenecks remain an issue, as Cenovus sells a good chunk of production at the discounted Western Canadian Select price. However, the company is still putting up solid numbers.

Cenovus currently trades at \$12 per share. That's better than the \$9 low it hit in early 2018, but is still significantly off the \$30 per share price it fetched in 2014.

Should you buy?

Despite the pipeline challenges, Cenovus appears to be on the mend, and management has even floated the idea of a dividend increase next year. The company will start moving more oil by rail to improve its sale price, and while oil prices have pulled back off the summer highs, they remain well above where they were last year, and could take off again in 2019 amid global supply risks, including

U.S. sanctions against Iran.

If you are an oil bull, and can ride out additional near-term volatility, Cenovus might be an interesting contrarian pick today.

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