Will Cenovus Energy Inc. (TSX:CVE) Ever Go Full Throttle?

Description

Energy stocks such as **Cenovus Energy** (TSX:CVX)(NYSE:CVE) are suddenly faced with the grim prospects of losing steam. About two months ago, many oil producers were euphoric over the oil prices hitting US$100 per barrel. The mood then was upbeat, as evidenced by the stock price climbing to $13.36 on October 1.

However, the momentum did not pick up despite the deal signing with **Canadian National Railway** (NYSE:CNI) last September. The plan was to increase Canada's crude-by-rail shipments by 50% this year end. It was also reported that the deal included facilitating deliveries of new locomotives.

What went wrong?

The sharp drop in oil prices is like somebody thrusting a dagger into the heart of the energy sector. An oil sands company like Cenovus can't afford deep discounts at this point given the company's high breakeven level of US$40 per barrel. Everything is now anchored on Western Canadian Select (WCS).

The stock hasn't been doing well even before the collapse of oil prices last week. By the end of October, the price dropped 16.55%. The price movement was erratic for the most part until it fell below $10.00. As of November 30, Cenovus sit precariously at $9.82, although the stock moved slightly higher — by 3.8% — at the beginning of the week.

If the oil glut persists and crude oil production hangs in the balance, then operating at a loss would be a bitter pill to swallow. Despite the blockages, Cenovus is holding the fort.

As this piece is being written, crude prices jumped on Monday. Prior to the official OPEC meeting, Saudi Arabia Crown Prince Mohammed Bin Salman and Russian President Vladimir Putin agreed to extend the two countries output cuts.

In another development, oil-rich Alberta made a surprising announcement. The province will also curb production outputs as a means of countering the crisis. What will buoy the market even higher is the news that U.S. and China are taking concrete steps to defuse trade tensions. A sidebar is Qatar's pulling out of OPEC effective January 1, 2019, citing the shift in focus to natural-gas production.

The setback is temporary

In the wake of forbidding developments, it appears that Cenovus is on top of the situation. Indeed, President and CEO Alex Pourbaix himself remains unperturbed, even lauding the temporary mandatory oil production cut implemented in Alberta.

While Pourbaix is in favour of mandatory production cuts, he views it only as a short-term solution, but the prevailing situation calls for extreme measures. He sees the need to balance the market in the short term until new rail and pipeline capacity comes on stream late 2019 and into 2020.

Long-term investors should take a cue from the CEO. The stock of Cenovus has been lethargic the past three months; the company is waiting for the proper time to go full throttle. Meanwhile, at the current price, the stock is a bargain. Cenovus is a pillar in the industry and has been in similar situations before.

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