Cenovus Energy Inc (TSX:CVE) Posts $2.7 Billion Loss for 2018: Should Investors Be Worried?

Description

Cenovus Energy (TSX:CVE)(NYSE:CVE) released its year-end results on Wednesday. Overall, it was a bit of a mixed bag for Cenovus, and although sales for the year were up 22%, the company still posted a deep net loss of $2.7 million, which is noticeably worse than the $3.4 million profit that it recorded a year ago.

Let's take a closer look at the results to see what drove big loss and whether Cenovus is still in good shape going forward.

Exploration expenses and cost of goods drive up costs

A big cost weighing down the quarter and year was exploration expense. Cenovus wrote off $2.1 billion of previously capitalized exploration and evaluation costs that were related to the Deep Basin. Last year, the exploration expense was a little under $900 million.

However, a lot of rising costs were also to do with the company's cost of goods sold. Purchased product and transportation and blending costs were up over $2.9 billion this year, or nearly 25% from the prior year. That's higher than the rate of sales growth that Cenovus achieved during the year.

In addition, Cenovus incurred a charge of $854 million relating to foreign exchange as well as a $795 million loss as a result of the sale of a subsidiary, Cenovus Pipestone Partnership.

Overall, Cenovus recorded an operating loss from continuing operations of more than $3.9 billion compared to earnings of $2.2 billion in the prior year. There were no shortage of items weighing on the company during the past year, and, unfortunately, they've added a lot of noise to the financials. While we can point to several and say that Cenovus would have broken if not for all these items, the fact of the matter is, they can't be ignored and are a result of real risks that the company faces.

Previous year boosted by gains, discontinued operations

Another big reason that the financials look a lot worse than they did a year ago is that in 2017 Cenovus benefited from a revaluation gain of $2.5 billion as well as a $1.1 billion gain from discontinued operations. Without those items giving its financials a boost in 2017, Cenovus would have posted a loss for the year.

Better times ahead?

Despite the challenging year and quarter, CEO Alex Pourbaix was optimistic about the results given how the obstacles that Cenovus had faced: “In the fourth quarter, in some of the most difficult macro-economic conditions we’ve ever faced and while voluntarily managing our oil sands production lower, we remained relatively cash flow neutral and continued to deleverage our balance sheet. I believe we are well positioned to make material progress on our business plan and further deleverage in 2019.”

Cenovus is certainly in a better position today when it comes to cost control than it was a year or two ago. And so what it really needs is some help on the top line. If the Alberta Government’s moves to help boost the price of Western Canada Select ends up paying off, then Cenovus and others in the industry could see some much stronger financials in future quarters.

Despite the disappointing overall performance, investors weren’t bearish on the results, as the stock was up around 2% in early trading on Wednesday.

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Date
2025/07/02
Date Created

2019/02/13
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