



Oil Stock Battle: Cenovus Energy Inc (TSX:CVE) or Husky Energy Inc. (TSX:HSE)?

Description

The Canadian oil industry has been rocked in recent months with many companies still reeling from depressed selling prices and mandatory supply cuts. As with all bear markets, plenty of stocks have fallen by 30% or more, potentially providing limited-time opportunities for bargain hunters.

Cenovus Energy ([TSX:CVE](#))([NYSE:CVE](#)) and **Husky Energy** (TSX:HSE) are two popular stocks being championed by value investors. Since the start of 2017, Cenovus shares have fallen by 40%. Meanwhile, Husky shares have dropped by more than 40% over the past six months.

With their share prices nearing multi-year lows, which stock is a better bargain today?

These companies are betting big

With massive exposure to oil sands projects, Cenovus and Husky are betting their futures on higher oil prices. In recent years, both companies have looked to expand this exposure even further.

For example, in September, Husky Energy [attempted](#) to buy rival **MEG Energy** for \$6.4 billion. At the time, MEG Energy billed itself as a “pure-play oil sands investment.” While the purchase ultimately failed, it proved that Husky’s management team is extremely bullish on oil sands.

Meanwhile, Cenovus did some acquiring of its own. In 2017, it [purchased](#) **ConocoPhillips’s** 50% stake in the Foster Creek Christina Lake project for \$17.7 billion. The company’s former CEO explained the deal as wanting to “take full control of our oil sands assets.”

So, while each company has its differences, both Husky and Cenovus will live or die by the health of Canada’s oil sands.

There’s only one problem

Betting that oil sands projects will generate long-term shareholder wealth will likely be a losing proposition. If you've been paying attention, you'd know that major integrated oil companies like **Exxon Mobil**, **Chevron**, and **Royal Dutch Shell** have already proven that these projects are dead.

In March, *Bloomberg* quietly revealed the future of North American oil production. With "plans to reduce the cost of pumping oil in the Permian to about US\$15 a barrel, a level only seen in the giant oil fields of the Middle East," *Bloomberg* triumphed that Exxon Mobil was ushering in a new era of ultra-low-price production.

Other oil majors weren't far behind. Chevron has production plans for 900,000 barrels per day in the same region, while Royal Dutch Shell is shopping for deals in the area in order to scale quickly.

Why do these revelations mark the end of oil sands projects?

Both will be losers

Oil sands projects are difficult to profit from. Take a look at the previous few decades of performance for oil sands producers like Cenovus and Husky — it's not pretty. With massive amounts of cheap North American production set to enter the market over the next few years, oil sands output should struggle strictly on a cost basis.

Because oil sands production is heavier than its U.S. counterparts, it requires more refining. More processing results in higher costs, which is why Canadian oil often trades at a discount.

Today, Husky's breakeven level is around US\$40 per barrel, while Cenovus may not be able to turn a profit unless prices exceed US\$50 per barrel. Compared to Exxon Mobil's purported US\$15-per-barrel production cost, these projects are a bust.

When choosing between Husky and Cenovus, I'd opt to avoid both stocks.

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