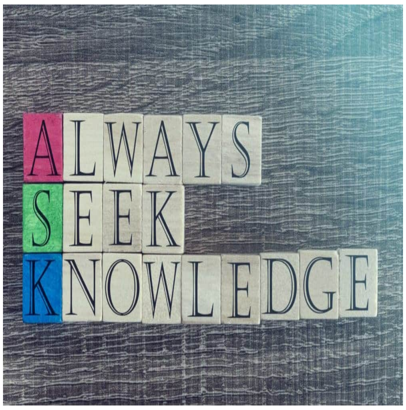

Should You Buy Crescent Point Energy Corp (TSX:CPG) or Cenovus Energy Inc (TSX:CVE)?

Description

The Canadian energy sector has been ripped apart over recent months, burdened by oversupply and constrained pipelines. This has provided a potential buying opportunity for beaten-down oil stocks.

Crescent Point Energy Corp (TSX:CPG)(NYSE:CPG) stock, for example, is down by 50% over the past 12 months.

Some stocks, however, have avoided the pain. **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) shares, for comparison, have *gained* 2% in value over the past year.

Should you buy depressed stocks like Crescent Point or stick with winners like Cenovus Energy?

It's not what you think

Cenovus Energy has greatly outperformed Crescent Point over the last year. Don't expect the future to repeat itself.

In 2018, Cenovus Energy posted a loss of $2 billion. Revenues actually grew year-over-year, so the company is having a difficult time turning a profit. Its cash balance fell, while its debt load rose. Even worse, there could be a $1.6 billion bomb hidden in its balance sheet.

In 2017, Cenovus Energy purchased stakes in multiple projects owned by **ConocoPhillips**. The company spent most of its cash and sold nearly 200 million shares to finance the deal. Today, the company is still scrambling to pay down a $3.6 billion loan used to finance the deal, forcing it to sell assets in a buyer's market.

When the deal was finalized in 2017, Cenovus Energy was forced to add $1 billion in goodwill to its balance sheet. Goodwill is basically a placeholder financial item used when a company pays more than the book value for an asset. Today, the company has $1.6 billion in goodwill.

At current oil prices, it’s hard to justify this value. Don’t be surprised to see the company take a $1 billion asset impairment charge this year as it rights its balance sheet.

Surprisingly, even after dropping 50% in 12 months, Crescent Point is actually in a much better financial position.

Crescent Point is the real winner

In 2018, Crescent Point’s management wanted to become “more focused and efficient with a stronger balance sheet.” While the market hasn’t rewarded the company yet, conditions appear to be improving.

Last year, it freed up $355 million in cash by selling non-core assets. In 2019, only $74 million in debt is due, giving the company room to maneuver. In fact, the new cash generated in 2018 is enough to service the next three years of debt maturities.

Incredibly, Crescent Point is expected to earn $400 million in free cash flow this year. That bounty will be enough to pay down debt even further. Notably, management has mentioned the possibility of share buybacks. With the stock price at multi-year lows, buybacks could create shareholder quickly.

For example, the company has already repurchased 1.3 million shares for $3.89 apiece. The net asset value of the company is estimated to be between $5.37 and $13.38 per share. Theoretically, that means that stock buybacks provide an impressive immediate return on investment for investors.

The trick to taking advantage of this value is having enough cash to execute a buyback. With ample amounts of free cash flow this year, expect Crescent Point to continue betting on itself. At today’s prices, Crescent Point stock looks like a steal.

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