What You Need to Know About Cenovus's (TSX:CVE) Earnings

Description

I'm going to keep this short and sweet.

There are a few things investors should be aware of if considering **Cenovus** (TSX:CVE)(NYSE:CVE) ahead of its earnings release on Apr. 24.

So, without further ado, I'm just going to dive right in.

Historical performance

This crude oil, natural gas, and natural gas liquids producer and developer is near the lowest it's been in the last five years. Investors have been quite wary to put their money on this stock, and there have been a few historical reasons why.

For four straight quarters, this company has been in the red. The next earnings will have a lot to prove, and the recent plunge in oil prices certainly won't help. When we see this company's earnings, it will give a clear picture of how the overall industry was hit, and how much the production cuts actually helped Western Canada Select.

So now, according to analysts, this stock is trading far below its fair price. But that could all change very quickly if this company show some strong positive results this quarter.

Finances

A few things affecting this company's share price go beyond the recent plunge in oil prices. In 2017, Cenovus took on a huge debt of $17.7 billion to acquire **ConocoPhillips's** oil sands assets. The quality was questionable at the time, but analysts now believe it may prove its worth in the next few years.

The company's 2018 earnings report was quite the disappointment. Cenovus ended the year with $8.5 billion in long-term debt, making it quite vulnerable to another oil price collapse.

Quarterly, the company’s earnings per share (EPS) missed estimates, reporting $1.35 EPS. Its revenue also came up short at $4.55 billion rather than estimates of $5.03 billion.

The good news

There is a lot of potential for this company, but all this recent bad news and poor performance has investors spooked. Yet Cenovus is definitely not as worried, it appears.

The company recently increased its capacity on Keystone XL, moving from 50,000 barrels per day to 150,000 barrels per day. That’s on top of its Trans Mountain capacity of 125,000 barrels per day. But, of course, these pipelines aren’t exactly running full speed yet, which is why the company has signed agreements to transport oil by rail at 100,000 barrels per day by the end of 2019.

Over the long term, this stock has a strong hand to play with its solvent-aided process. It has the potential to become the lowest-cost oil sands production in the industry and is currently in its testing phase. Once this process is proven, the stock could shoot up from its current share price at $14 per share to its previous highs in the mid-$30 range.

Bottom line

There’s a lot riding on this quarterly report for Cenovus, and it could be a rough number of years yet. But once oil prices completely rebound and its solvent-aided process becomes steady, this company should be a leader in the industry. If oil alone remains strong, shareholders could see a share price of $25 by this time next year.

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