Why Cenovus Energy Inc (TSX:CVE) Is a Hot Buy After a Strong Q1

Description

Cenovus Energy Inc (TSX:CVE)(NYSE:CVE) released its first-quarter results on Wednesday, which showed a lot of positives. Revenues for the quarter came in at $5.2 billion and were up more than 10% from the prior year. What's even more impressive is that Cenovus was able to post a profit of $110 million, a big improvement from the $654 million loss that it incurred a year ago.

Let's take a closer look at the results to see whether now is a good time to buy Cenovus.

Company credits lower price differential as key in the improved performance

The production cuts that were implemented earlier this year by the Province of Alberta helped bridge the gap between Western Canada Select (WCS) prices and West Texas Intermediate. Cenovus noted that the differential fell to an average of US$12.37 per barrel this past quarter, which was a big improvement from where it was in Q4 when the delta reached record highs.

WCS continues to rise in price and could lead to strong results again in future quarters.

Cost control and lower operating expenses helped generate a strong pretax profit

Cenovus was able to achieve cost savings across many different sections on its financials. The company has been moving away from being aggressive on hedging activities and losses relating to risk management totalled $217 million this past quarter, compared to $330 million a year ago. General and administrative expenses were also down significantly from $120 million to just $72 million for a cost reduction of 40% in one year. Financing costs also declined to $124 million from $150 million in the prior year.

Overall, expenses of $4.8 billion dropped by more than $800 million. Although the company did benefit from foreign exchange gains of $198 million in Q1 compared to a loss of $277 million last year, it also saw an increase in contingent payments (related to the **ConocoPhillips** deal) from $117 million to $263 million as a result of the increase in oil prices.

Improvement in cash flow

Cash is ultimately what matters, and Cenovus did a great job of generating positive cash flow from its operations with $436 million coming in from its day-to-day activities, compared to an outflow of $123 million a year ago. The company spent less on capital expenditures with only $310 million spent on acquiring property, plant and equipment, compared to $521 million in 2018. The strong results also allowed Cenovus to pay down its long-term debt by $558 million.

Bottom line

There's a lot to like about Cenovus' recent financial results. With the company generating a profit and showing strong cash flow, it was a big improvement all around for the company that should help generate some excitement from investors. Although the stock has risen by 45% since the start of the year heading into earnings, prior to Wednesday's open it was still trading around book value.

And as WCS grows stronger and prospects for the industry continue to improve, it only makes Cenovus a much better buy. The company has done a good job of creating efficiency and it's now seeing the results of those efforts.

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