



Should You Buy Cenovus Energy (TSX:CVE) Stock Right Now?

Description

The recent pullback in the energy sector has investors who missed the rally in the first part of 2019 wondering which stocks might be [attractive picks](#) today.

Let's take a look at **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) to see if it deserves to be in your portfolio.

Rough ride

Cenovus took a pounding in recent years as low oil prices, pipeline bottlenecks, a whopper takeover, and bad hedging positions all combined to trigger a rush out of the oil sands producer.

In 2017, Cenovus spent \$17.7 billion to buy out its 50% partner, **ConocoPhillips**, in a move that caught many market watchers by surprise, given the fragile state of the [oil sector](#).

The decision resulted in the exit of the CEO shortly after the deal was announced and Cenovus saw its share price drop below \$10 per share. When **Encana** initially spun out its oil sands operations in 2009 to create Cenovus, the stock traded for close to \$30 per share.

The thinking behind the ConocoPhillips deal actually made sense. Cenovus already operated the facilities and knows the potential of the assets. It instantly doubled oil sands production and the resource base, while also picking up attractive assets in the growing Deep Basin plays in Alberta and British Columbia.

Unfortunately, Cenovus had to take a \$3.6 billion bridge loan to cover the deal while it searched for buyers for an anticipated \$5 billion in non-core assets. The company had trouble unloading the identified properties at the prices it expected but eventually managed to get the funds needed to cover the loan.

However, in order to protect cash flow during this process, the management team hedged about 80% of production through the first half of 2018 at prices that turned out to be much lower than the market

rate.

Should you buy now?

Most of that is now in the rear-view mirror and the stock might be an interesting contrarian pick today. The share price rose from \$9 in late December to the recent high of \$14 per share, supported by improvements in Western Canada Select (WCS) prices and the company's moves to secure more market access by rail.

Oil prices have pulled back in the past week or so and investors are taking profits in the sector. Cenovus is down 10% in the last five days and now trades at close to \$12 per share.

If you are of the opinion the latest oil pullback is just a temporary dip before another move to the upside through the end of the year, Cenovus appears attractive today. Trans Mountain and Keystone XL still have reasonable chances of being built in the next few years and once they go into service, the entire outlook should change for Cenovus.

Patience is required, but this stock could generate some nice upside over the long haul.

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