Is Cenovus Energy (TSX:CVE) Stock a Buy Right Now?

Description

The Canadian energy sector is littered with stocks that are trading at levels that appear too good to be true, but many of these cheap stocks keep getting cheaper.

Avoiding the smaller players with rapidly declining resource bases and highly leveraged balance sheets is probably a good idea.

However, there are some beaten-up stocks in the sector that might offer strong long-term upside and are not at risk of going bust in the event oil prices tank again.

Let's take a look at **Cenovus Energy** (TSX:CVE)(NYSE:CVE) to see if it deserves to be on your contrarian buy list.

Assets

Cenovus is a major player in the Canadian oil sands sector, has part ownership in refineries, and owns attractive resources in the Deep Basin plays in Alberta and British Columbia.

The company made a big bet in 2017, spending $17.7 billion to buy out its oil sands partner, **ConocoPhillips**.

The deal instantly doubled production and the resource base on assets that Cenovus already operated and knows very well, so it appeared to be a reasonable move given the multi-decade life of the oil sands reserves.

The market didn't like the deal for a number of reasons, and the CEO left the company shortly afterwards. Timing proved to be unfortunate, as Cenovus had to take a large bridge loan to cover the acquisition while it shopped non-core assets.

Oil prices initially weakened after the deal was announced, but rallied through the end of 2017 and into the first half of 2018.

The front end of that rally helped Cenovus sell the properties and pay off the bridge loan, but the company also hedged a majority of its production to protect cash flow and the surge in the price of oil led to significant write-downs as a result.

Cenovus fell as low as $9 per share in the summer of 2017 and retested that level in late 2018. This year the stock has traded as high as $14 and currently sits at $12.25.

Should you buy?

The recovery in Western Canadian Select (WCS) prices from US$11 last fall to the current price near US$47 is a huge benefit for Cenovus. In the company's April 2019 update, Cenovus said that every US$1 reduction in the WCS/WTI differential adds about $60 million in adjusted funds flow.

Cenovus has space booked on both the Trans Mountain and Keystone XL pipeline projects. Assuming at least one gets built, the company will be able to move significantly more production to higher-priced markets. Cenovus is also expanding its oil-by-rail capacity.

Total debt is down by US$1.4 billion, or 18% since Q3 2018. The company has access to $4.5 billion in credit facilities, so there is ample liquidity.

Should you buy?

Cenovus slashed its dividend to protect cash flow during the slump, but investors could see the company start to increase the payouts if oil can extend its recovery.

Cenovus can cover its existing dividend and sustaining capital program at oil prices that are well below current levels and management is doing a good job of paying down debt.

If you are an oil bull and believe that Trans Mountain and Keystone XL will be in service in the next few years, Cenovus appears attractive right now. The stock traded above $33 per share five years ago.

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