3 Reasons Why This $15 Billion Energy Stock Is up More Than 35% in 2019

Description

Since "bottoming out" in 2018, stock in **Cenovus Energy** (TSX:CVE)(NYSE:CVE) has done much better since the start of 2019, up over 35% already so far to start the year.

We'll take a look at what's contributed to the firm's recent success and what investors can look to going forward.

First-quarter results benefitted from Government of Alberta's mandatory curtailments

For the first quarter of 2019 Cenovus was able to generate more than $1 billion of adjusted funds flow, benefitting from the Government of Alberta's mandatory curtailments for oil sands production.

By constricting supply, those curtailments helped to lift benchmark prices for Canadian oil, generating improved pricing in CVE's upstream operations.

Meanwhile, as far as downstream operations are concerned, it's continuing to invest in strategic initiatives that it hopes will help to distance itself from a weaker market for Canadian energy prices.

Current plans include reinvestment in crude-by-rail programs with both **Canadian National Railway** and **Canadian Pacific Railway** as well as sizeable commitments already in place for future pipeline expansions, including Keystone XL (owned by **TC PIPELINES**) and the Trans Mountain Expansion project, which is expected to account for as much as 275,000 bbl/d combined.

Continued progress deleveraging its balance sheet

Cenovus continues to make progress in deleveraging its balance sheet following its major acquisition of the **ConocoPhillips** assets from a few years ago.

In the first quarter, Cenovus retired US$449 million of unsecured notes, realizing a gain of US$30 million on the transaction, and in June announced plans to accept for purchase another US$748 million of its aggregate principal notes.

That brings the total amount of debt that it's been able to repurchase over the previous six months to US$1.4 billion, as it continues to work towards its longer-term target of US$5 billion in net debt on its balance sheet, and a ratio of less than two times net debt versus adjusted earnings before interest, taxes, and amortization.

Does this rally still have legs?

Despite that the shares are already up more than 35% in 2019, my personal opinion is that, yes, this is still a rally that has legs left in it.

Not only do CVE shares continue to trade for considerably less than their reported book value, but the company has returned to profitable operations in the first quarter, including generating over a billion dollars of adjusted funds flow.

My belief is that if and when this company manages to get its current leverage issues solidly and firmly behind it that won't be long before market sentiment begins to swing strongly in its favour, as the cash flows that are currently being paid out to the company's creditors will become free once again to made available to its shareholders in the form of dividends and share repurchases.

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Author
jphillips