Better Buy for Energy Exposure? Cenovus Energy (TSX:CVE) or Crescent Point (TSX:CPG)

Description

Energy stocks continue to crash today, in what has been a very difficult few years for investors that have exposure to the energy sector. Increasingly though, when we look at many of the recent earnings reports of these oil and gas companies, we notice a sharp contrast between the companies' financial performance and the stocks' performance.

What gives?

Oil and gas prices are notoriously affected by sentiment, geopolitical risk, and expectations for supply/demand fundamentals, as they should be. Today, after years of hardship in the Canadian oil and gas industry, investors seem to have given up hope. Difficult as this may be, it is just what often proceeds the biggest stock price gains.

Let's consider this: maybe investor sentiment has shifted too far to the negative side, and maybe this sector is not dead, as some of the valuations seem to suggest. Let's think about which energy stock is the better buy.

Stellar results

Cenovus Energy (TSX:CVE)(NYSE:CVE) has seen strong cash flows coming through in the last five years — in the good years but also in the not-so-good years. In the second quarter of 2019, Cenovus generated more than $834 million in adjusted funds flow. That was a 73% increase compared to last year's second quarter. Even in 2016, when realized oil price per barrel was just over $31, Cenovus generated operating cash flow of $1.4 billion.

The $17.7 billion acquisition of assets from **ConocoPhillips** in 2017 has served to dramatically increase Cenovus's production profile, drive efficiencies, and drive strong cash flow growth. 2019 operating cash flow is expected to be north of $4 billion. Operating costs are coming down quickly and currently stand 25% lower than 2015 levels at $8 per barrel of equivalent oil (boe).

These are big numbers. Yet the stock trades at a measly four times cash flow and the stock price continues to fall. Cenovus stock continues to languish, with a one-year return of 13% (actually, that's not too bad), a two-year return of -6.8%, and a three-year return of -41%.

I think the stock will catch up to the company's fundamentals in short order.

Stellar resource

Crescent Point Energy (TSX:CPG)(NYSE:CPG) is another energy stock that has seen better days. The stock is trading at a price-to-cash flow multiple of just over one times — a level I cannot even remember ever seeing. The company is free cash flow positive, and management intends to use this cash flow mostly to pay down debt but also to buy back shares. This sitting-duck approach is perfect for the times.

The stock has fallen from over $21 three years ago to just over $4 today in a spectacular fall from grace that has destroyed shareholder value. But this says nothing about the company's actual assets, which are top quality.

Crescent Point has big exposure to lucrative, quality resource plays that provide solid economics. The Bakken shale resource play in Saskatchewan is one of the plays where Crescent Point is very active. It is a light oil, high-return play that provides long term growth potential with many opportunities to enhance production through waterflood development.

Foolish bottom line

No matter how we feel about it, it seems clear to me that energy stocks are pricing in disaster scenarios — scenarios that I do not believe will materialize. I am therefore more interested in having the conversation regarding which stocks to buy in the sector.

While Crescent Point certainly has more upside, it is also the riskier choice.

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