Cenovus (TSX:CVE): Time to Finally Buy the Stock?

Description

Cenovus (TSX:CVE)(NYSE:CVE) has had a tough run over the past decade, but a recent announcement by the oil sands producer could be a sign that things are improving for the company.

Let's take a look at the stock to see if it deserves to be on your contrarian buy list today.

Tough times

Cenovus was created about 10 years ago when **Encana** spun off its oil sands business.

The stock initially traded near $30 per share and drifted as high as $39 in early 2012 before the long slide during the oil rout took it as low as $9 per share late last year.

Falling oil prices combined with pipeline bottlenecks have had a negative impact on most of the Canadian energy patch, but Cenovus has also suffered due to some self-inflicted pain.

What happened?

The company spent $17.7 billion in the spring of 2017 to buy out its oil sands partner **Conoco Phillips**. At first glance the deal seemed like a reasonable move to make, considering Cenovus already operated the assets, knew the resource base well, and had an opportunity to double its production when the market was in a slump.

The deal also came with some attractive resources in the growing Deep Basin lays in Alberta and British Columbia.

The problem that investors saw was the debt the company had to take on to pay for the deal. Cenovus used a bridge loan of $3.6 billion to cover part of the cost to buy the assets while it shopped non-core facilities to raise the required funds.

Oil prices initially fell after the deal was announced, making it harder to find buyers at the prices

Cenovus has hoped to get for the assets. Fortunately, a rebound occurred through the summer of 2017 and Cenovus was able to monetize enough properties to cover the loan.

The rise in oil prices continued through the end of 2017 and into the first half of 2018. Normally, that would have been great news for Cenovus, but management had hedged roughly 80% of production through the end of 2017 and the first six months of 2018 at low prices as a safety measure while the company tried to sell the non-core assets.

This resulted in a significant risk management losses in the first two quarter of last year. Oil then tanked through the fourth quarter, adding more pain.

Opportunity

Curtailments in Alberta have helped boost Western Canadian Select prices through 2019 and the province is slowly reducing the cuts.

Pipeline bottlenecks continue to be an issue, and the result of the federal election could impact the likelihood of Trans Mountain getting completed.

That said, Alberta's oil sands producers will probably get relief from at least one of the projects in the works. Trans Mountain, Keystone XL, and the Line 3 replacement project would all help ease the pain. At least one, if not all three, will probably be completed in the next few years.

Cenovus just released its new five-year growth plan and says cash flow should be adequate to continue paying down debt, buy back shares, and increase the dividend. In the announcement, the company said it is raising the dividend by 25%.

Should you buy?

Cenovus trades at $11.50 per share. Given the cash flow outlook and the size of the dividend increase, it appears management feels there is light at the end of the tunnel.

If you are an oil bull and have some cash sitting on the sidelines, Cenovus might be an interesting contrarian bet today.

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