Can Cenovus Energy (TSX:CVE) Stock Double Your Money?

Description

Trading at a mere 3.58 times cash flow and generating more than $2 billion in free cash flow this year, there is no doubt that **Cenovus Energy** (TSX:CVE)(NYSE:CVE) stock has a strong potential to double your money. The question is, will it do this and when?

Is the environment conducive to this happening, or is investor sentiment and focus destined to remain fixed on clean, renewable energy sources at the expense of oil and gas stocks, despite short-term company fundamentals that appear very favourable?

Let's take a look at where Cenovus stands today and what the catalysts could be for a doubling of its stock.

An abundance of cash flows

Certainly, the major catalyst for Cenovus is in its cash flow generation, both historically and expected. Cenovus has seen strong cash flows 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.

Looking ahead, management recently released their five-year plan, which helps us to see how a doubling of its share price may be very likely. In this news release, management outlined that they expect to generate $11 billion in cash flow through to 2024. This assumes a WTI oil price of US$57-US$64 per barrel. Current WTI prices are at US$53 and have ranged from highs of US$72 a year ago to lows of US$42.53 in December 2018.

Rising shareholder returns

With this ramp up in cash flows, management has outlined its intention to return cash to shareholders. In fact, just this month, the company announced a 25% increase to it dividend, effective for the fourth quarter of 2019. And the company expects that yearly dividend increases of 5-10% will be totally achievable.

Management has noted that they are in a position to also consider share repurchases and will continue to work to create shareholder value. Currently, Cenovus's dividend yield stands at 2.17%, and its stock price trades at 3.6 times cash flow.

Debt reduction

While debt levels are still elevated, they have come down significantly. Debt levels should close the year at $5.6 billion, down significantly from 2017 levels of $8.4 billion. Looking further ahead, as the company continues to generate strong free cash flows, we can expect debt levels to continue to decline to just over $4 billion in 2020.

Foolish bottom line

Cenovus Energy is making progress in all the right places, making it easy to see how the Cenovus stock price can double your money. Buying the stock today means buying it at ultra-depressed levels at a time when cash flows are high, debt is falling, and shareholder returns are rising.

Cenovus's five-year plan is all about returning cash to shareholders. With this plan and the strength of Cenovus's operations, betting on a doubling of its share price appears very reasonable. The company is taking care of its end at least, and once the macro environment strengthens, we will see Cenovus stock take off.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred

4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/27
Date Created
2019/10/16
Author
karenjennifer