Undervalued and Hammered: Cenovus Energy (TSX:CVE) is Looking Good Right Now

Description

When a company announces a 25% increase in dividend for the fourth quarter of 2019 and says it will continue to increase its dividend payout by 5%–10% every year, you'd expect investors to make a beeline for the stock.

However, **Cenovus Energy** (TSX:CVE)(NYSE:CVE) didn't see any movement after that announcement in early October. The stock price has been trading between $8.75 and $14.3 for the last year and is currently priced at $11.4.

Cenovus is an integrated oil and natural gas company headquartered in Calgary. Their operations include oil sands projects in northern Alberta, which use specialized methods to drill and pump the oil to the surface, and established natural gas and oil production in Alberta and British Columbia.

Cenovus also has 50% ownership in two U.S. refineries. The company has been hit by the dip in oil prices since 2014, and oil sands operators across Canada have all been taking hits for the last five years.

Cenovus also has a major albatross around its neck: the debt it took on to make the $17.7 billion purchase of its oil sands partner **Conoco Philips** in 2017.

Cenovus isn't shying away from the current situation. On the company's investor's day, CEO Alex Pourbaix said the company had faced its fair share of challenges since his appointment in 2017, but the management team has been turning it around. Pourbaix also unveiled Cenovus' strategy until 2024.

Lower debt and higher cash flows

Pourbaix's focus is clear: increase cash flows and reduce debt all the way to 2024. Cenovus will reduce its net debt to $5 billion within the next six quarters. This seemed like an ambitious target considering its total debt was $12 billion two years ago. However, Cenovus reduced net debt to $7.1 billion in the second quarter of 2019 after generating over $830 million in fund flow during the same quarter.

Cenovus has always been good when it comes to cash flows, and its second quarter numbers were 73% higher compared to the same period in 2018. The company is targeting cumulative free funds flow of approximately $11 billion at mid-cycle West Texas Intermediate (WTI) prices averaging between US$57 and US$60 per barrel (bbl) until 2024.

WTI prices right now are at US$53.49. Cenovus' has always been aggressive with cash flows. It generated $1.4 billion in cash flows in 2016 when WTI prices were $31. As the company lowers its debt, it frees up funds to finance opportunistic share repurchases, further dividend growth, and to look at acquisitions.

Analyst speak

With its shares trading at 0.74 times book value and 0.67 times sales, Cenovus is severely undervalued. Out of 14 analysts, six have a "hold" rating on the stock and seven have a "buy." One analyst has a rating of "sell."

Cenovus' dividend yield is around 2.2% and its stock price trades at 3.6 times cash flow. The dividend yield might not be the best one around but the company's stock is crying out for a buy. Debt levels are going down, cash flows are going up, dividends are on the rise, and it looks like shareholders are going to get great returns.

Don't buy Cenovus for the 25% dividend increase – buy it because it's undervalued right now.

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