Contrarian Investors: Is Cenovus Energy (TSX:CVE) Stock a Buy?

Description

Canadian energy stocks are rolling out their Q3 earnings results, and the market isn't responding in a positive way.

Let's take a look at **Cenovus Energy** (TSX:CVE)(NYSE:CVE) to see if the latest dip in the share price is a signal to start a contrarian position in the stock.

Earnings

Cenovus reported Q3 2019 results that actually came in better than analysts expected. The company reported operating earnings of $284 million and net earnings of $187 million, or $0.15 per share, compared to a loss of $0.20 per share in the same period last year.

Oil sands operating costs came in at $6.90 per barrel, representing a 21% improvement over Q2 2019 and a 24% improvement over Q1 this year.

The realized sale price increased by 11% on a year-over-year basis to $55.13 per barrel. This helped offset a drop in output. Total production from continuing operations slipped from 495,000 barrels of oil equivalent per day (BOE/d) to 448,000.

Debt

Cenovus took a big hit in 2017 when it spent $17.7 billion to buy out its oil sands partner, **ConocoPhillips**. The move will likely pan out over the long term, as it instantly doubled both production and the resource base. Cenovus already operated the facilities and knew the assets.

Unfortunately, the company had to take a $3.8 billion bridge loan to get the deal done while it shopped non-core assets. Oil prices initially slipped after the deal, and Cenovus had a tough time getting the value it wanted for the assets it hoped to monetize.

In the end, oil recovered some lost ground, and by the end of 2017 deals were in place to sell enough assets to cover the loan.

Given the uncertainty of the market and the need to protect cash flow while it looked for buyers, Cenovus hedged 80% of its production through the first half of 2018 at low prices, resulting in heavy writedowns, as oil rallied from July 2017 through July last year.

In 2019, Cenovus has made progress on reducing remaining debt. The net debt position fell from $7.1 billion at the end of Q2 2019 to $6.8 billion at the end of the third quarter. Cenovus is trying to get net debt down to $5 billion.

Opportunity

Market access remains a challenge for Cenovus and its oil sands peers. Western Canadian Select (WCS) prices have improved from the crash witnessed late last year, but a discount to WTI is still significant. At the time of writing, WCS is US$38 per barrel compared to US$54 for WTI.

Pundits continue to debate the probability of a new pipeline being completed to carry Alberta oil to international markets. If Trans Mountain or Keystone XL get completed, Cenovus should benefit, as it has committed capacity to ship 275,000 barrels per day (bbls/d) on expansion pipeline projects.

In the meantime, the company has taken steps to increase its oil-by-rail shipments. Cenovus averaged 80,000 bbls/d in shipments to U.S. refineries in September, representing an increase of more than 100% compared to June. Cenovus says it is on track to reach 100,000 bbls/d in rail shipments by the end of the year.

Should you buy Cenovus today?

The stock trades at $11 per share compared to more than $30 in 2014, so there is decent upside potential on a turnaround in the sector.

Cenovus should be past the worst of its debt and hedging woes and enjoys low-cost production on assets with decades of production capacity. If you are an oil bull, Cenovus might be an interesting pick right now for a buy-and-hold portfolio.

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