Act Quickly and Buy Cenovus Energy (TSX:CVE) Stock for Big Upside in 2020

Description

Undervalued stocks are so attractive, yet sometimes, so scary. Of course, there are always reasons a stock is undervalued. The trick is finding those stocks that are undervalued for reasons that have been exaggerated or problems that will ultimately be solved.

Cenovus Energy (TSX:CVE)(NYSE:CVE) is one of the top energy stocks that is caught in the throes of negative investor sentiment as well as real tangible problems. The problems lie not with the company itself, but with the industry in which it operates: the Canadian oil and gas industry.

We know all too well the problems in this industry, so I would like to focus on the way around these problems as well as the company's strengths and catalysts for shareholder value creation.

Cenovus's market-access strategy raises realized pricing

Market access has been one of the biggest problems that Canadian energy companies have been forced to reckon with. Low oil prices in Canada have been met with government-mandated production curtailments in an effort to help get the sector back on its feet.

For its part, Cenovus has been pursuing a market-access strategy that is aimed at, firstly, gaining access to modes of transportation for its oil and gas other than pipelines (such as rail and marine) and, secondly, gaining access to the higher global oil prices.

Cenovus has continued to ramp up its crude-by-rail capacity and expects to be transporting 100,000 barrels a day by rail by the end of 2019. This is significant and represents more than 20% of total production.

Furthermore, Cenovus has increased its access to higher global oil prices significantly and is now transporting approximately one-third of its oil sands production to U.S. destinations. This is up significantly from less than 20% last year. These efforts have contributed to higher realized pricing in the latest quarter of $55.13 per barrel (compared to $49.73 per barrel in Q2 2018).

So, we can see that while these solutions have not been easy or quick to implement, they are slowly working to improve the situation.

Rising dividends

Management has outlined its intention to return cash to shareholders. In fact, the company announced a 25% increase to its dividend, effective in the fourth quarter of 2019. Management expects to implement yearly dividend increases of 5-10% going forward, stressing that they are in a position to also consider share repurchases, all in the goal of creating shareholder value.

Currently, Cenovus's dividend yield stands at 2.22%, and Cenovus's stock price trades at an undervalued 3.5 times cash flow.

Falling debt levels

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.

The progress that Cenovus has made in reducing its debt and improving its balance sheet has not gone unnoticed. On October 21, Moody's affirmed its Ba1 credit rating and moved the company's outlook from "stable" to "positive."

Foolish final thoughts

Times have been tough for Cenovus Energy, as the difficulties in the Canadian oil and gas industry have been exacerbated by the company's excessive debt levels. Today, the company continues to turn the corner and will emerge in 2020 as a financially strong operational leader with top-quality assets. Cenovus stock has potentially big upside in 2020.

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karenjennifer