These 2 Stocks Have Lost 3/4 of Their Value in a Month: Time To Buy?

Description

A number of analysts have now reported the market is now pricing a 60% chance of a recession this year. We are now in the first bear market in more than 11 years.

This serious shift in sentiment makes investing in companies like **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Vermilion Energy** (TSX:VET)(NYSE:VET) a terrifying prospect for most.

Why? Both companies have lost 3/4 of their value in just a few weeks. Determining whether these Canadian oil players are a falling knife or a deep value investment is the real question at this time.

Markets are digesting probabilities around the severity of the coronavirus pandemic. In addition, markets are determining the overall impact of the monetary and fiscal stimulus plans in Canada and the U.S. continue to implement.

Cenovus

Cenovus is perhaps one of the “bluest” of blue chip Canadian oil sands operators and stands out among its peers. Due to its massive reserves and technological advances related to the extraction process for heavily oil, Cenovus has an extremely low production cost per barrel relative to its peers.

Oil has taken a big hit due to the recent Saudi/Russia conflict heating up. Cenovus’ stock price has tanked, as profitability in the North American oil patch remains largely tethered to global oil prices. Operators like Cenovus remain price-takers.

I expect that Cenovus’ stock price will rebound over the next year. Cenovus should perform well in the next five to 10 years. First, I don’t see a realistic situation in which prices stay this low. Prices are currently below the average marginal cost of extraction in the industry.

Second, I'm quite sure that that the Canadian/Albertan government will do something to help companies like Cenovus. Such oil companies employ thousands of Canadians in high-paying,relatively low-skill labour. They will want to keep those voters happy.

Vermilion Energy

Vermilion Energy is in a similar situation to that of Cenovus. Even post-dividend cut, Vermillion has been hammered extremely hard of late. (By the way, this dividend cut is something the company's management team insisted would never happen).

In scenarios like this, when oil producers effectively lose money on every barrel of oil extracted, the market simply begins to shift free cash flow (FCF) projection for the upcoming quarters and years.

Therefore, this leads to a reduction in a company's share price. In the case of Vermilion, fundamentals in the oil patch simply trumped communication from the company.

Bottom line

Equities in Canada's oil patch are now exhibiting similar characteristics as call options on the ability of these companies to survive. The aggregate drop in cumulative market capitalization in this sector in early March indicates a much higher insolvency/bankruptcy risk for all energy players.

This includes even those with relatively decently-sized operations like Cenovus and Vermilion. If you believe, as I do, that these prices are unsustainable, and we're unlikely to see Alberta completely left out to dry by the federal government, then now may be the time to back up the truck.

Stay Foolish, my friends.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. oil
2. recession
3. yield

TICKERS GLOBAL

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

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