TSX Stocks: 2 Canadian Titans That Fell 80% in COVID-19 Crash

Description

There has been some respite from the brutal selloff recently. The **TSX Composite Index** has rallied more than 20% since last week on government stimulus and probably due to short covering. However, there was no breather for energy investors.

The sector continues to squeeze between the double whammy of demand slowdown due to the pandemic and supply shock driven by the Russia-Saudi oil price war. More worrisome still, crude oil prices could dig deeper as supply glut worsens in April.

The energy sector continues to look gloomy

Energy stocks are already sitting at their multi-year lows. The selloff might accelerate in the near future, with the price of oil falling to levels we've never seen.

Cenovus Energy (TSX:CVE)(NYSE:CVE) and **Husky Energy** (TSX:HSE) are some of the biggest losers in the energy segment this year. These two TSX stocks, both integrated energy companies, have lost approximately 80% amid the coronavirus crash in the last few months. Both of these stocks are currently trading at their respective multi-decade low levels.

Cenovus is one of the biggest oil producers in the country, producing almost 500,000 barrels per day last year. Management has cut its production guidance to about 450,000 barrels for this year. Notably, it has lowered its capital spending by 32% for 2020.

The energy sector is experiencing large production cuts this year due to falling crude oil prices. Husky Energy also cut its production guidance for 2020 by 5% last week. With lower production and grounded oil prices, these energy companies will likely take a huge dent in their earnings this year.

Some positives

Canadian oil producers suffer from deficient midstream infrastructure like congested pipelines. Thus, some of these have already lowered production and focused on strengthening balance sheets by cutting debt in the last few years. Thus, they are now relatively better placed to traverse through a low oil price environment.

Additionally, while oil sands production is a costly setup, it's comparatively economical to operate, which might give them the ability to sustain low prices.

Canadian energy companies such as Cenovus and Husky Energy seem well placed to combat these hard times. The net debt on their books is not exorbitantly high. Both companies had net debt-to-EBITDA ratios of 2.2 times and 1.5 times at the end of Q4 2019, respectively.

This is called as the leverage ratio, which shows how many years a company would take to repay its debt using EBITDA keeping both constant. The strong balance sheet will likely put them in a better position to weather low prices environment.

TSX stocks: Valuation and dividend yields

Based on historical earnings, Cenovus stock is trading at a price-to-earnings multiple of six times, while Husky's valuation comes below five times. It might seem attractive if we consider these valuation multiples in absolute terms. But that would be imprudent.

With so much earnings uncertainty surrounding these energy names, only extremely aggressive investors might consider these stocks.

Investors should note that Cenovus and Husky are currently trading at a dividend yield of 11% and 16%, respectively. Though these high-yields look tasty enough, the probable dividend cuts might push them down significantly.

The worries surrounding the earnings and free cash flows in the next few years could force the management to trim dividends.

A rebound in oil prices could turn around these energy stocks as well, which seems unlikely at the moment. However, a faster-than-expected recovery with the virus outbreak might increase the demand, pulling oil prices to some respectable levels. Some type of sector-specific government aid could also revive oil-producing companies in Canada.

However, in my view, TSX energy stocks such as Cenovus and Husky might continue to trade weak in the short term. Both are expected to report their Q1 earnings in late April, when we'll see the extent of the damage.

Those numbers and management commentary will set the path for these stocks going forward.

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