Is Cenovus Stock Worth the Risk?

Description

To say that oil and gas stocks have been hit hard this year would be putting it lightly. As crude oil prices have crashed, they've taken oil and gas stocks along with them. **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) shares are down more than 60% already in 2020. With the volatility surrounding oil prices, it's difficult to tell if the stock has reached the bottom.

The stock's performance has been strongly correlated to the price of oil, and that can be a good or bad thing depending on your outlook for oil prices. A further decline in oil could send the stock even deeper into the abyss.

Is a rally the more likely scenario?

In the past month, shares of Cenovus have been rallying and are up more than 60% from the lows that reached in March. And there's reason to be optimistic that more of a rally could take place. After all, oil companies around the world are in the same boat as Cenovus and that's going to incentivize countries to take on deeper production cuts to help push commodity prices higher. We may never see oil hit US$100/barrel again but that doesn't mean that prices will continue falling, either. And as long as more declines don't take place in the price of oil, there's hope that shares of Cenovus will at least remain stable.

Currently, Cenovus is trading at just two times its earnings and at a minuscule price-to-book multiple of around 0.2. Those are dirt-cheap metrics and they could make the stock an appealing buy for bargain hunters who aren't afraid to take on some risk. For most investors, however, that may not be the case.

There's still too much risk to buy Cenovus today

While there’s no denying that Cenovus stock is cheap, that’s not a reason to buy it. The oil and gas industry is in even worse shape than it’s been in during the downturn, which started back in 2014 and that it still hasn’t recovered from. Cenovus has already announced that it would be cutting spending twice since March and there could be more cuts to come in order to conserve cash.

As of the end of 2019, Cenovus had $186 million in cash on its books. And that’s not a terribly large amount given that in its fourth-quarter results it incurred interest expenses totalling $113 million. Coincidentally, that is also how much profit it posted.

Although Cenovus has recorded a profit in four straight quarters, in its most recent quarter it recorded a profit margin of just 2.2%. In the period prior to that, the margin was 3.7%. There’s not a whole lot of buffer right now for Cenovus to take a big hit to its top line. We could see the company’s bottom line go back into the red.

Bottom line

Conditions in the oil and gas industry may improve but it may not be until the economy goes back to normal, which is not happening anytime soon. In the meantime, companies like Cenovus have to do what they can to keep their heads above water. That doesn’t make for a safe investment. Investors are better off looking for more stable investments, especially as the markets continue to be very volatile.

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1. Investing

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Author
djagielski