Oil Prices Are Rising: Is Now the Time to Buy Cenovus Stock?

Description

It was three months ago that oil prices turned negative as demand cratered, in large part due to the coronavirus pandemic and lockdowns in many parts of the world that kept people indoors. However, a lot's changed since then as many cities have reopened and OPEC is even looking at loosening production cuts.

West Texas Intermediate (WTI) was also trading at more than US$40/barrel last week — which is right around where it was before the World Health Organization officially declared the coronavirus outbreak a pandemic on March 11.

The rise in oil prices could make now a great time to buy some beaten-up oil and gas stocks. One stock that stands out is **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE). In the past, I've looked at how closely correlated the stock's been the price of WTI.

Indeed, with the price of oil climbing over the past few months, shares of Cenovus have also been climbing. Three months ago, the stock was trading well below $4 a share and in June it rallied to nearly $8 before falling back down to around $6. Buying the stock when oil prices were negative could've netted you a return of more than 70%.

Where the stock may be headed from here on out

Despite the stock's recent, it still may not be too late to buy the stock. Let's not forget that at the start of 2020, shares of the oil and gas company were trading at more than $13. However, it's unlikely for the stock to get back to those levels anytime soon, certainly not with the COVID-19 pandemic still weighing down the economy. And a recession doesn't help, either.

When the company released its first-quarter results back on April 29, Cenovus' numbers looked brutal. Cash from operating activities was down 71% from the prior-year period, it reported a mammoth $1.8 billion loss and revenue was also down by 21%.

The company's going to be releasing its second-quarter results on July 23 and there's little reason to expect a good performance. The Q1 numbers only went up until the end of March and Q2 will include some abysmal months for the economy — April through to the end of June.

Another hefty loss is likely in the cards for the quarter as is a steep decline in sales, which means the stock could be headed lower in the days and weeks ahead.

Should you buy the stock?

If you're bullish on oil prices an investment in Cenovus could be a great idea given the stock's close relationship to the price of oil. However, it may be a good idea to wait until after the company released its Q2 results as the quarter isn't likely to be a strong one for the company. And a poor performance could send the stock lower, making it a better buy afterwards.

Currently, the stock trades at less than half of its book value and close to one-third of the sales it's generated over the past four quarters. It's a cheap buy but it's definitely a risky one, especially if the price of oil falls. If you're okay with that risk, then buying Cenovus could be a great move as the stock has lots of upside.

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