
Cenovus Stock Is Up 115% in 6 Months: Is Now the Time to Buy?

### Description

When the market crashed in March, shares of **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) fell down to just over $2. Since then, however, the stock's been recovering steadily and today it trades at around $5 — more than double its 52-week low.



It was poor commodity prices and an underwhelming outlook for demand for oil that made investors bearish on the oil and gas industry several months ago, and Cenovus was part of that collateral damage.

After all, for a stock that generally moves fairly consistently along with the price of oil, it's not a surprise that it did poorly amid a low commodity price. But the good news is that in recent months, the price of West Texas Intermediate (WTI), a key North American benchmark, has been relatively stable at around US$40/barrel. That stability's allowed Cenovus and other oil and gas stocks to recover.

That being said, Cenovus stock is still down 60% thus far in 2020. Early on in the year, it was trading north of $13, but it may not return to those heights for a while.  However, for contrarian investors, the stock could make for a tempting buying opportunity.

## Is Cenovus stock worth taking a chance on?

There's potential for shares of Cenovus to take off, but there's also the danger they could crater, again.

Even prior to the coronavirus pandemic, the company's struggled with a weak bottom line. In its last 10 quarterly results, only four times has Cenovus reported a profit, and three of those times its profit margin didn't come in any higher than 4%.

The reality is that 2020 was already looking to be a challenging year for Cenovus and other Canadian oil and gas stocks. After the Liberals won the federal election last October, it appeared certain that the industry was going to continue to face roadblocks and struggle in getting pipelines built in this country.

And the pandemic's exacerbated those problems as now there's also lower demand for oil.

In the company's most recent quarterly results, Cenovus used up $834 million in cash from its day-to-day operating activities compared to $1.3 billion in cash that it generated in the same period last year. Its operating loss of $414 million was also nowhere near the positive operating earnings of $267 million it reported in the prior-year period.

Investors are currently paying just 0.4 times book value for shares of Cenovus. It's a dirt-cheap valuation for a top oil and gas stock. But the problem is that the stock's been trading below book value for the past year and while that multiple's a lot lower than it was a year ago, the discount is there for good reason: this is a risky stock to own.

A lot depends on the stability of oil prices. And that's something that's hard to gauge, especially if there are further lockdowns around the world due to COVID-19, which could instantly send the commodity tumbling.

Cenovus is a cheap stock, but that doesn't mean it's worth buying today. Its impressive returns over the past few months aren't indicative of a more bullish outlook for the industry or the company, and investors should be careful not to get too excited as there's still lots of risk here. It's a stock that I'd stay far away from as there are many better investments out there to choose from.



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