Why Did Cenovus Energy (TSX:CVE) Stock Slump 16% Last Month?

Description

Energy stocks continue to remain volatile due to lower demand amid the pandemic and oversupply issues. The price war between Saudi Arabia and Russia did not help either and drove several stocks to multi-year lows. Shares of Canada's oil giant **Cenovus Energy** (TSX:CVE) are trading at $4.85, which is 65% below its 52-week high.

Further, the stock fell 16% in September 2020. Let's see if Cenovus is a good buy after the recent price correction.

A domestic giant grappling with low crude oil prices

Cenovus is a Canada-based integrated oil and natural gas company with a market cap of $6 billion and an enterprise value of $16 billion. Its operations include oil sands projects in Northeast Alberta, where Cenovus has established crude oil, natural gas liquids, and natural gas production. In 2019, total production from its upstream assets averaged 452,000 BOE per day in 2019 and refineries processed 443,000 gross barrels per day.

In the second quarter of 2020, the company reported sales of $2.17 billion, a fall of 61% year over year compared to sales of $5.6 billion in the prior-year period. This massive decline in its top line resulted in a net loss of $235 million in Q2, compared with a net income of $1.78 billion in the prior-year period.

Cenovus said its operating margins were impacted by lower average realized crude oil sales price. This was offset by lower royalties, and lower transportation and blending costs. Its average realized crude oil sales prices fell to $12.83 per barrel in Q2 compared to $62.75 per barrel in the second quarter of 2019.

Can Cenovus stock make a comeback in Q4 of 2020?

Cenovus stock touched a multi-year low of $2.06 in March 2020. While the stock has gained 135% since then, there are a lot of uncertainties surrounding the company. Cenovus suspended dividends in

April this year to improve liquidity to help it tide over these uncertain times.

However, Cenovus was struggling to post consistent profit margins even before the pandemic drove demand lower. In the 10 quarters, Cenovus has reported a net profit only four times. Despite its dividend suspension, the company used $834 million in cash from its operating activities. In the prior-year period, it generated $1.3 billion in cash from operations.

The stock is trading at a price-to-book ratio of 0.4 and a price-to-sales ratio of 0.37, which might make it attractive to value investors. While its sales are forecast to fall by 32.3% to $13.67 billion in 2020, it might report an adjusted loss of $1.41 per share, compared with earnings of $0.37 per share in 2019. Further, analysts expect Cenovus sales to rise by 19.6% in 2021. However, it is still expected to post a net loss of $0.24 per share.

Cenovus stock has a 12-month average target price of $7.76 which is 60% above its current price. The stock is trading at a massive discount for a reason. Further, Cenovus' recovery in the last few months does not warrant a bullish outlook, and investors should note that investing in this beaten-down energy company carries certain risks.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/24
Date Created
2020/10/04
Author
araghunath