Is Cenovus (TSX:CVE) a Buy Now That It's Buying Husky Energy (TSX:HSE)?

Description

Two Calgary-based oil and gas companies are going to be joining forces. On Sunday, **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) announced it would be acquiring **Husky Energy Inc** (TSX:HSE) for $3.8 billion worth of shares. The new company will be the third largest in the industry in terms of production and it will continue operating as Cenovus. In the announcement, Cenovus said that it expects to achieve "annual run rate synergies of $1.2 billion," most of which are to come in the first year. The deal will also be "accretive to all shareholders on cash flow and free funds flow per share."

What this also means is that many more oil and gas workers could soon find themselves out of work. On a conference call going over the deal, Cenovus CEO Alex Pourbaix said that "transactions like this are necessary to ensure our companies and investors stay strong, but there is no escaping the impact they inevitably have on some extremely talented and dedicated people" as the businesses seek to get rid of redundancies and any overlap, which is inevitable when two companies within the same industry come together.

Cenovus expects the acquisition by the first quarter of next year. The Boards of both companies have unanimously approved the deal.

What does this mean for investors?

For investors, the important takeaway is that Cenovus will get bigger and with the cost savings to be achieved from the deal, that should improve its bottom line. Both of these companies have been struggling of late, with Cenovus incurring losses in two straight periods, and it's been in the red in six of the past 10 quarters overall. Husky, meanwhile, has incurred losses for three straight quarters, and prior to that was profitable in each of its last seven periods.

The coronavirus pandemic's made it harder for the oil and gas industry to succeed as commodity prices are down as people are travelling less which has hurt demand for oil. Next month's election south of the border also complicates things further as a change in the leadership there could also adversely impact the industry in North America as a whole.

Consolidation can sometimes become necessary in industries like oil and gas where turning a profit's become a lot more difficult. In 2018, Husky was the one looking to acquire a company when it placed a hostile bid to purchase **MEG Energy** for $3.3 billion, a deal that it would eventually abandon after MEG's Board rejected the offer.

Investors shouldn't be surprised to see more deals in oil and gas, especially as the pandemic continues to weigh on the industry.

Bottom line — is Cenovus a buy?

Year to date, shares of Cenovus have fallen more than 60%. With the business bigger and better positioned to turn a profit, it could stand to benefit once the coronavirus pandemic is over and things get back to normal. The only problem is that it may be multiple years before that happens and it's likely going to remain a struggle until then.

But if you're willing to hang on and take on the risk, the stock certainly has the potential to generate some great returns in a few years.

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