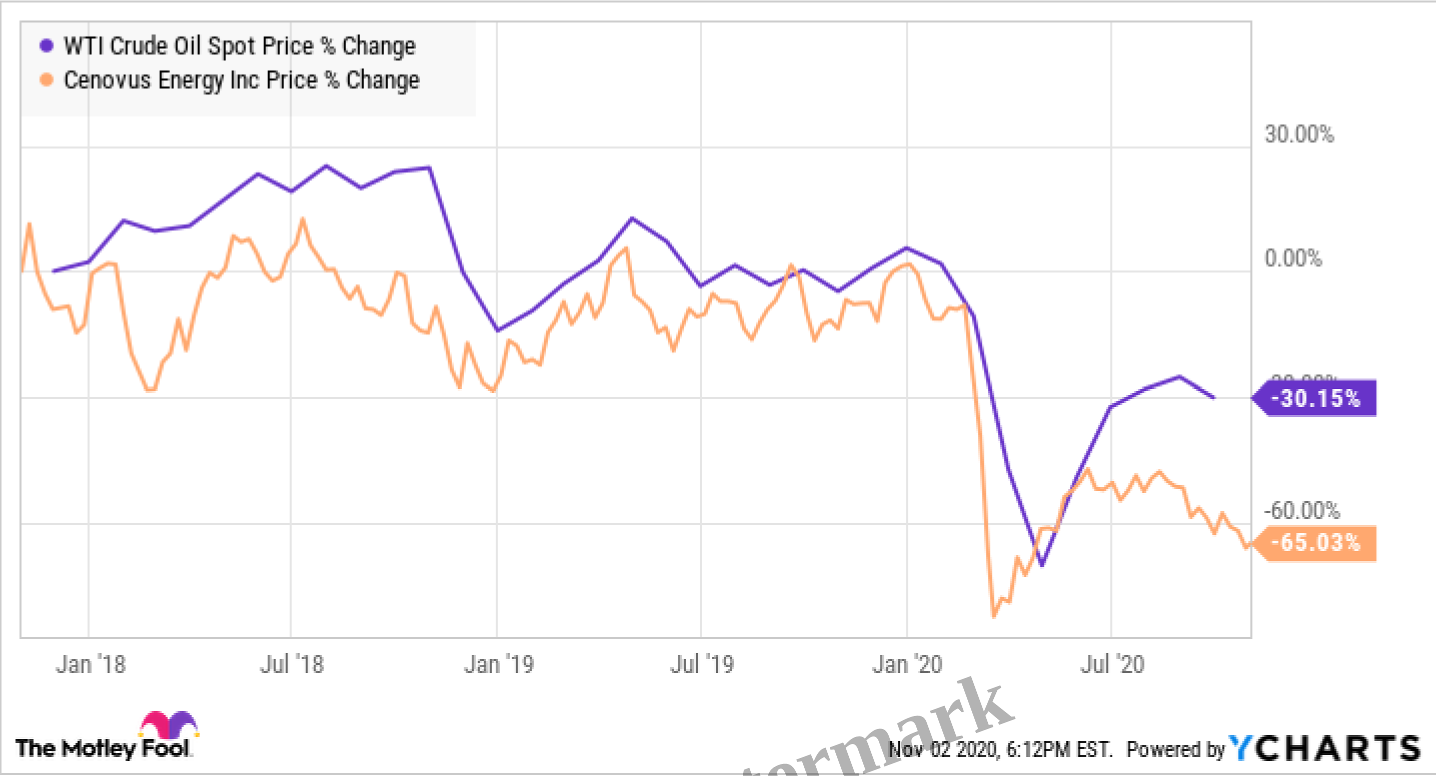
Why Cenovus (TSX:CVE) Stock Could Be 1 of the TSX's Biggest Losers if Biden Wins the U.S. Election

Description

The U.S. election is finally here, and there's lots at stake. It's not just Americans who will be impacted by Tuesday's election results, but north of the border, many Canadian companies will also feel the effects if there's a change in leadership in the U.S.

President Donald Trump has been partial to the oil and gas industry and has been in favour of projects like the Keystone XL. But if Joe Biden is elected president, there could be significant repercussions for the industry, and one stock that could be particularly vulnerable is **Cenovus Energy** (TSX:CVE)(NYSE:CVE). Fresh off an announcement that it would be acquiring **Husky Energy**, the company's effectively doubling down its exposure to the industry. While the move could position it for long-term success and help achieve cost savings as the two Calgary-based energy companies join forces, it doesn't make the investment any less risky.

Under Biden, the U.S. will likely move towards greener sources of energy. It may not be overnight, but a greater focus on climate change and initiatives steering the country away from oil and gas could decrease demand. Then there's the supply side. Trump has been tough on Iran, placing sanctions on the country, which prevents its oil production to impact the markets. But if those sanctions are lifted or at least loosened, which many people expect will happen, then could lead to an influx of oil, which will only push down the price of the commodity. Over the past few years, Cenovus stock has closely tracked the price of a West Texas Intermediate (WTI), a key North American benchmark:



The danger is obvious: an increase in supply coupled with a decline in demand could send oil prices plummeting, which would likely take Cenovus stock down in the process, perhaps to an even greater degree now that its operations are more dependent on the commodity. A further danger is that the longer the coronavirus pandemic goes on, especially if there are lockdowns, the demand for oil may continue to suffer, which would only exacerbate Cenovus's problems.

The company's already coming off a few tough quarters where its cumulative losses totaled more than $2.2 billion over the past three periods.

Bottom line

Year to date, shares of Cenovus are also down 65%, and there may be no end in sight to the stock's decline if Biden wins the U.S. election. While many oil and gas companies in Canada will undoubtedly be adversely impacted by the results, Cenovus is already in a difficult situation, generating negative free cash of $586 million over the past three quarters. Trading at a heavy discount of around 0.3 times its book value, investors have only been willing to buy the stock at a steep discount. And as the level of risk Cenovus faces rises, so too will that discount.

While it's possible that the stock could turn things around if conditions in the industry improve, under a Biden win, that may not be all that likely. It could take multiple years before Cenovus stock rallies, potentially more if Trump isn't re-elected.

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