Cenovus Has Plenty of Room to Run From Here

Description

The pandemic hit capital markets hard in 2020. Energy stocks felt the brunt of the blow a year ago.

Certainly, **Cenovus Energy** (TSX:CVE)(NYSE:CVE) wasn't immune. The company posted a massive loss of US$1.8 billion last year. However, indications are the tide could be turning. Cenovus's recent Q1 profit indicates things are in turnaround mode.

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For those seeking a contrarian pick, here's why Cenovus looks like an interesting option today.

Things are turning around

Looking at Cenovus's recent numbers, it appears the future is a lot brighter these days.

Indeed, investors looking past this pandemic will like Cenovus's recent earnings report. During Q1 2021, the company reported a profit of US$220 million. This profit came despite Cenovus having to report a US$245 million one-time integration cost for an acquisition made in January.

Total revenue came in at US$9.15 billion during the first three months of 2021. Higher commodity prices and improved production volumes led to this increase. Indeed, Cenovus's nearly 200% jump in revenue took the market by surprise.

Accordingly, it's no surprise to see Cenovus's stock price react as it has. For those who believe oil prices will remain stable and more production increases are on the horizon, this is a great pick at these levels.

Acquisition could prove fruitful long term

One of the key reasons for Cenovus's booming revenue is its recent acquisition of Husky Energyearlier this year.

Indeed, this was a massive deal. The combination resulted in Cenovus becoming the country's third-largest oil and natural gas producer.

That said, Cenovus already appears to have made some synergies materialize as a result of the deal. The company slimmed down its workforce and focused on creating cost efficiencies. These measures have bolstered the company's bottom line this past year.

Cenovus expects to create between US$400 million and US$600 million in annual operating cost savings moving forward. If the company is able to achieve this goal, investors can expect a wave of cash flow to hit in the coming quarters — that is, if oil prices cooperate.

Seeing that the company did fairly well in Q1 2021, U.S. oil producer **ConocoPhillips** announced it plans on selling a portion of its stake, amounting to 208 million shares. The sale will happen in an open market later this year.

Bottom line

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Cenovus's focus on cost efficiencies and increased scale due to this acquisition could bode well for long-term energy investors.

Those bullish on the value Cenovus can provide long term may want to consider this stock at these levels. Energy stocks continue to have positive momentum today, and may emerge strongly from this pandemic strong. Long-term investors seeking value in today's market should definitely give this stock a hard look.

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