2 Oil Stocks That Took a Beating: Buy Low?

Description

The oil slump and the COVID-19 pandemic wreaked havoc on TSX's energy sector in 2020. Oil stocks lost significant value as a result. **Whitecap Resources** (TSX:WCP) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) took a beating but have recovered since. However, if the new COVID strain stalls the global demand recovery, both growth stocks are buying opportunities if their prices drop.

Exceptional comeback

Whitecap Resources, an oil-weighted growth company, had to act fast in 2020 to preserve its asset integrity due to the fallout from the oil price war. Management decreased its capital program for the year by 44%, which resulted in a 6% drop in average annual production.

Likewise, the $3.4 billion company slashed its monthly dividend by 50% effective April 2020. Fast forward to 2021, and Whitecap investors have enjoyed a 13.26% year-to-date increase compared to the 3.44% loss last year. The current share price is $5.40, although it's still 20.82% lower than its 52-week high of $6.82.

Market analysts recommend a strong buy rating. They forecast a 68.15% return potential to $9.08 in the next 12 months. The good news for income investors is that the dividend yield is decent at 3.61%. Moreover, Whitecap's payout ratio is only 19.28%.

In the first half of 2021, Whitecap had a net income of $38.2 million versus a $2.2 billion net loss in the same period in 2020. Besides the exceptional Q1 2021 results across all business segments, Whitecap achieved record production (116,799 boe/d) during the quarter. Due to a strong balance sheet, low decline asset base, and increasing funds flow, management increased Whitecap's dividend by 8%.

Earnings power

Cenovus Energy shaved off roughly 40.35% of its value in 2020. The downward trajectory of oil prices forced management to reduce its capital spending by $600 million (43% less) from the year-end 2019 guidance of $1.3 billion to $1.5 billion. The hardest decision was the suspension of dividend payments to conserve cash.

As of August 6, 2021, the energy stock trades at $10.18 per share, a 31.76% year-to-date increase. Market analysts are also bullish on Cenovus and recommend a strong buy rating. They predict a 53.88% upside to $15.97. Their high price target is $22 (+116.11%).

In Q2 2021 (quarter ended June 30, 2021), management reported net earnings of $224 million versus the $235 million net loss in Q2 2020. Alex Pourbaix, president and CEO of Cenovus, said, “Our results underscore the earnings power of the combined company as we further integrate and deliver on our expanded asset base.”

Among the quarter’s highlights were the $1.8 billion adjusted funds flow and $1.3 billion free funds flow. Cenovus also generated $1.4 billion in cash from operating activities. Management expects production to increase by 2% in 2021. It also said that Cenovus is on track to achieve $1.2 billion of run-rate synergies and net debt of $10 billion by year-end.

In January 2021, and before the coronavirus outbreak, Cenovus acquired Husky Energy. According to management, the business combination will make the company a resilient, integrated energy leader. Canada’s five largest pension funds increased investments in oil sands producers, including Cenovus Energy, in Q1 2021.

Buying opportunities

Whitecap Resources and Cenovus Energy emerged stronger in 2021 and could deliver superior returns in the near term. Both are buying opportunities if the Delta variant reduces global oil demand. Based on analysts’ forecasts, the potential returns could be 50-60%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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2. TSX:CVE (Cenovus Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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Date
2025/08/20
Date Created
2021/08/09
Author
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