



## Cenovus Energy (TSX:CVE) Misses Expectations: Should You Buy CVE Stock on Weakness?

### Description

**Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) shares are weak today after the company reported a big earnings miss this morning.

### What happened?

CVE reported its Q4 and year-end 2022 results before the market opened this morning. The results show a big net loss that investors are reacting badly to. The problem here is not in the company's actual real-time performance. It is, in fact, due to a whopping \$1.9 billion impairment charge. The charge relates to a change in independently derived assumptions that have affected the carrying value of assets.

Also, there was an issue related to Cenovus's U.S. refinery: the Lima refinery. Planned maintenance uncovered some operational issues. Therefore, it took longer than expected. This culminated in a low utilization rate from the refinery and increasing costs. As of today, all the issues are in the rear-view mirror, and operations are back to normal.

### So what?

On the surface, the impairment charge on Cenovus's refineries is a blow. It resulted in a net loss of \$408 million versus earnings of \$551 last quarter. It may very well have investors questioning Cenovus's rationale for its purchase of Husky Energy a short while ago.

However, digging deeper into this, we see that this charge is the result of an accounting adjustment. It does not change the business. Also, it's non-cash. It reflects the estimate of the value of the assets at this point in time. It does not change the value that these assets will bring going forward. And it does not change the diversification benefits they bring to Cenovus. In short, this integrated business provides steady cash flows and greater predictability to Cenovus.

Turning to cash flows, we can see that this quarter was actually a big success. We can see the momentum in the +2000% rise in cash flows. And we can see the value creation in the company's deleveraging. Things, it seems, are going as planned for Cenovus.

## Now what?

Right now, CVE stock is weak today. But this looks to me like a great buying opportunity. This is because [oil and gas fundamentals remain bullish](#). Not surprisingly, rising demand combined with low supply is having its expected impact. In this environment, Cenovus continues to be well positioned. This upcycle combined with Cenovus's operational improvements, are sending cash flows soaring.

These cash flows are being used to pay down the company's heavy debt load. According to management, they are "rapidly heading toward and below the \$8 billion net debt target." Therefore, "[Increasing shareholder returns](#) will be top of mind for this management team." Management sees the "Importance and urgency" of returning cash to shareholders. Stay tuned for a plan on this from the company.

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