



Why Did Cenovus Energy (TSX:CVE) Stock Double in 12 Months?

Description

Cenovus Energy ([TSX:CVE](#))([NYSE:CVE](#)) stock surged 25% year to date and 100% in 2021, outperforming **Suncor Energy**, which surged 21% and 48% over the same period. Cenovus is currently trading at its October 2016 high of above \$20. It is the fastest growth Cenovus stock has reported in its lifetime. Even Suncor didn't rally 100% annually in its lifetime. So what is driving this rally? Is there more where it came from?

Unearthing the why of the Cenovus Energy stock rally

A capital appreciation of 163% in 14 months is unlikely for an oil stock. Call it luck or timing. Things worked out for Cenovus Energy way better than it expected. The company announced the acquisition of Husk Energy in October 2020 and completed it on January 1, 2021. Cenovus wanted to make the most of the oil price slump caused by the pandemic. It knew that the pent-up demand for travel could drive oil prices higher.

The amalgamation with Husk Energy made Cenovus the third-largest integrated oil company in Canada. The amalgamation combined oil sands and heavy oil assets with trading, storage, and logistics infrastructure, as well as downstream assets. This combination created opportunities to optimize operations and access markets outside Alberta.

An oil company cannot control oil prices. Hence, it tries to lower costs. This helps it remain profitable during the cyclical downturns and boost profits in an upturn. Cenovus realized \$1.2 billion in cost and capital synergies. As per the company's [presentation](#), the combined company's free funds flow would break even at a WTI price of US\$36/barrel.

But 2021 turned out to be a bombastic year as oil prices surged, crossing US\$84/barrel as the global economies reopened. This was way above Cenovus's bullish estimate of US\$55/barrel for WTI. High oil prices brought in significant cash flow, and the company used it to pay off debt. It reduced its net-debt-to-adjusted-EBITDA ratio of 1.2 times, within its target range of 1.0-1.5 times. The company had a net debt of \$9.6 billion, slightly above its target range of \$6 billion-\$8 billion.

The fundamentals and rising oil prices caught investors' attention, sending Cenovus stock up 100% in 2021.

What does 2022 has in store for Cenovus Energy?

Cenovus Energy earns 46% of its revenue from the U.S. and 51% from Canada. When 2022 began, the Omicron wave had started to ease, and the oil price picked up from the November 2021 dip. Analysts expected the oil price to cool in the second half of 2022 as the Organization of the Petroleum Exporting Countries (OPEC) increases the oil supply.

But then tensions escalated between Russia and Ukraine, and the U.S. warned of Ukraine's invasion by Russia, sending oil futures up. The [war broke](#), and oil prices surged 25% in nine days, from US\$92.81 on February 24 to US\$115.68/barrel on March 4. The oil price took a big hit as Russia is the world's largest oil exporter. It caters to 39% of European gas needs and 7% of U.S. crude oil and oil product needs.

The war is escalating, and investors fear that Europe could witness one of the biggest energy crises.

We are now talking to our European partners and allies to look in a coordinated way at the prospect of banning the import of Russian oil while making sure that there is still an appropriate supply of oil on world markets.

U.S. Secretary of State Antony Blinken told [news channels](#)

Europe would look for alternatives, and the U.S. and Canada could be a likely choice as negotiations with Iran get delayed. Canada is the third-largest oil sands producer and supplies 61% of the U.S. crude oil imports.

While global oil stocks surged, Canadian oil stocks surged like tech stocks. Not just Cenovus, stocks of the top two integrated oil companies, **Canadian Natural Resources** and Suncor, surged 21% and 37%, respectively. **JPMorgan** warned that continued uncertainty could push the crude oil price to as high as US\$185/barrel this year.

Should you buy oil stocks now?

Oil stocks could be very volatile, and any further escalations in conflicts could send them to a new high. If you are looking for a long-term passive investment, stay away from oil stocks. But they are likely to soar in the short term. You can make money from Cenovus Energy through [active investing](#).

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