This 1 Oil Stock Is Already Up Over 34.5% This Year

Description

Canada's primary stock market continues to hover in record territory thanks largely to the strength of the energy sector. Oil stocks, whether small-, mid-, or large-cap, have positive year-to-date returns. **Cenovus Energy** (TSX:CVE)(NYSE:CVE) rewarded investors with a 101.6% overall return in 2021 following a forgettable COVID year.

Fast forward to the present, and this large-cap oil stock trades at $20.83 per share and is up 34.5% year-to-date. Cenovus had strong momentum at the start of the year, although the expected losses on its existing risk management program in Q1 2022 could lead to a pullback this month. Still, it should be a buying opportunity for growth investors.

No more hedging

On April 4, 2022, Cenovus Energy announced the suspension of its crude oil price hedging and disclosed steep losses of around $970 million in the first quarter. Like other oil producers, this $41.56 billion integrated energy company protects itself from sudden oil price drops through hedging.

Unfortunately, hedging isn't workable anymore or is a losing strategy as the benchmark West Texas Intermediate (WTI) oil price keeps surging. In the quarter ended March 31, 2022, the hedging of about $470 million will translate to an enormous realized losses on all of Cenovus' risk management positions.

Based on forward prices at the quarter's end, management estimates realized losses on all risk management positions for the next quarter (ending June 30, 2022) to be $410 million. Actual losses or gains, however, depends on applicable market prices or rates at the time of the positions' settlement.

According to management, it will close the bulk of its outstanding crude oil price risk management positions related to WTI in the next two months. It adds that Cenovus should have no significant financial exposure to these positions after Q2 2022.

Healthy balance sheet

Cenovus has already determined and confirmed that it no longer needs to hedge to support financial resilience. Management said the balance sheet is healthy and there's sufficient liquidity. Therefore, expect Cenovus to remain well-positioned to generate significant free funds flow over the long term.

Net losses widened 166.7% to $408 million in Q4 2021 versus Q4 2020. However, free funds flow increased 1,123% to $1.11 billion. For the full-year 2021, net earnings reached $587 million compared to the $2.37 billion net loss in the preceding year. Alex Pourbaix, Cenovus president and CEO, said that 2021 was also the first year of the combined company.

Cenovus bought Husky Energy and the successful integration of the assets was the reason for the exceptional operational performance in 2021. Pourbaix adds the stronger company exceeded expected transaction synergies. Meanwhile, investors await the Q1 2022 earnings results on April 27, 2022.

Important announcements

Pourbaix further said, "In 2022, we are focused on building a similarly strong executional track record in U.S. manufacturing." He further said it demonstrated the additional value that business will generate for shareholders. In November last year, this oil stock doubled its dividend following the strong Q3 2021 profits. The current yield is 0.63%.

Meanwhile, investors await the Q1 2022 earnings results and updated corporate guidance on April 27, 2022. Management will also announce on the same day details of its plan for increasing shareholder returns.

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Date
2025/08/23
Date Created
2022/04/14
Author
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