Can Cenovus Stock Outperform in H2 2022?

Description

One of the leading integrated players in the energy sector, **Cenovus** (TSX:CVE)(NYSE:CVE) is one company many investors have done well with over the past year. Of course, following the onset of the pandemic, this wasn't true at all. But with investors choosing more defensive options, many are now looking at Cenovus stock as a viable option in this market.

That makes sense. After all, Cenovus is a cash flow machine at these oil prices. With refining capabilities, Cenovus also captures significant value in the end-to-end distribution of fuel to consumers. With a dividend yield of 1.7% to boot, investors receive some income as well as capital-appreciation upside.

Now, the question is whether oil prices will remain elevated over time, and what the company's cash flow prospects are from here. Let's dive into whether this stock will outperform, or underperform, in the second half of 2022.

Cenovus to close WTI hedges

The top oil sands producer of Canada has stated in one of its releases that it is looking to end hedging against WTI (West Texas Intermediate) crude. It has also warned that the company might face significant losses in the upcoming days.

The statement from Cenovus indicates that it will face a loss of about $970 million on hedges during the first quarter. In addition, it is likely to lose another $410 million in the following quarter.

This release further states that the liquidity and balance sheet position of the company is strong enough right now. Hence, it has been decided that such programs are not required anymore to support the finances and financial resilience of the company. Cenovus is confident enough to produce free funds flow in the long run. These cash flows are expected to be adequate to provide the necessary financial buffer and resilience to Cenovus in the future.

Oil producers and energy companies usually keep hedges in order to safeguard themselves against market downturns and volatility in oil prices. As per year-end results, Cenovus booked $892 million in the form of realized losses for risk management purposes last year.

Company sources say that it will shut down a majority of its WTI hedges within the next two months.

Selling of asset amid mixed profitability

Cenovus has also made another big move investors are keenly watching right now. The company has decided to sell off its Husky fuel network along with the Wembley assets in December 2021. The deal was set at about $660 million. In addition to this, it will sell off Tucker thermal assets at a price of $800 million.

Cenovus plans to use the proceeds from these asset sales to return capital to shareholders and pay off some of its debt. As per reports, Cenovus will receive as much as $2 billion as total proceed from all asset sales that it declared last year.

Interestingly, Cenovus's net income margin of 2.35% is higher than the industry average of 2.10%. In addition, the company's trailing 12-month cash from operations of $3.15 billion is more than 10 times higher than the industry average. These asset sales could further boost these numbers in the short term.

Bottom line

Oil prices have jumped significantly over the last month due to the continued rise in geopolitical tensions. Until we see an end to this war, I think it's likely we'll be in a higher commodity price environment for some time.

Given Cenovus's clear intention of improving operating margins and streamlining its business, I think this stock is one that could outperform in the second half of this year. Cenovus is a company known for quality in this sector. Accordingly, as investors seek safety, Cenovus could be a top pick in this sector for some time to come.

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