1 Energy Stock That You Can't Overlook

Description

Energy stocks took a beating in 2020 due to the global pandemic and posted a -30.8% annualized return. If not for the technology sector's 80.3% gain, the TSX would have finished the year in the red. However, with the return of energy demand with the lifting of COVID restrictions, the energy sector made an incredible comeback with a +41.8% overall return in 2021.

Many oil producers incurred enormous losses in 2020 due to the oil crash. **Cenovus Energy** (TSX:CVE)(NYSE:CVE) was among the companies that suffered the most. The $47.11 billion integrated oil & natural gas producer had to bite the bullet and reduce its capital budget spending.

Investors were collateral damage because of the suspension of dividend payments to preserve cash and protect the balance sheet. But fast forward to 2022, and Cenovus Energy is among the profitable investments. At $24.40 per share, the trailing one-year price return is 136.55%. On a year-to-date basis, it outperforms the energy sector at +58.16% versus +45.17%.

Reinstatement of dividends

On April 27, 2022, the board of directors approved the tripling of Cenovus's base dividend in the second quarter (Q2) 2022 following the reinstatement of dividends in the preceding quarter. In Q1 2022, net earnings soared 638.6% to $1.625 billion versus Q1 2021. It enabled management to increase dividends by 200%.

The robust cash inflows continued in Q2 2022, as free funds flow increased 77% year over year to $2.27 billion. Notably, net earnings and cash from operating activities rose 986% and 118% versus Q2 2021.

Alex Pourbaix, Cenovus president and CEO, said, "We executed on our commitment of returning 50% of excess free funds flow to shareholders in the quarter while maintaining strong operational and financial performance during a period of significant planned turnarounds and maintenance."

Pourbaix added, "And we're well positioned for even better performance in the second half of the year as our assets return to operating at normal rates across the portfolio." Cenovus benefitted from Cenovus's higher average commodity and realized sales prices for products in the upstream and downstream businesses.

Minimal impact from inflation

The massive profits in Q2 2022 somehow indicates the minimal impact of inflation on the business, particularly oil sands. Pourbaix said management is keeping an eye on inflation, although the situation has been manageable so far this year. He further said that it won't meaningfully change any investment decisions and plans over the coming year.

"Most of our activities are really planned out and staged years in advance," Pourbaix said. However, there's pressure on the conventional side of the business, namely drilling and fracking rigs, drilling pipe casing, and completion rigs. The cost of these items as escalating towards the 10% range.

Mind-blowing free cash flow

Eric Nuttall, a partner and senior portfolio manager with Ninepoint Partners LP, said in June that the oil sector will deliver mind-blowing free cash flow in the second quarter. Cenovus Energy plunged 53% in a single trading day in 2020 but is validating Nuttall's predictions for 2022.

Despite recessionary fears and macro volatility, market analysts forecast Cenovus to appreciate by 29.34% to $31.56 per share in 12 months. The dividend yield is 1.72% if you invest today.

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