Why Cenovus Energy (TSX:CVE) Rose 12% Last Week

Description

Cenovus Energy (TSX:CVE)(NYSE:CVE) stock rallied 12.4% last week, going from $21.20 Monday morning to $23.84 Friday afternoon. The week was a pretty strong one for stocks in general, but Cenovus Energy rose more than the average stock. In this article, I will explore two main reasons why it did.

First major oil rally in over a month

The most obvious reason why Cenovus Energy rallied last week was because oil prices were strong in the period. For most of the prior month, oil prices were trending downward. Oil had rallied earlier in the year but began giving up its gains in July. For most of July and the first week of August, oil prices trended downward, going from a high of $123 to a low of $87.

Last week was the first major reversal in that pattern. Last week, West Texas Intermediate (WTI) crude oil futures rallied going from $88.40 to $91.88. At one point in the week, prices were all the way up at $94, though that didn't last long. The week's close at $91.88 was at any rate strong enough for oil stocks to book some gains. However, Cenovus's 12.4% rally was way ahead of the 3.9% rally in oil prices, so there was something more going on here than just rising oil prices.

Solid earnings

One factor that may have contributed to CVE's rally last week was its second-quarter earnings release. The release came out on July 28, so it wasn't the immediate cause, but it may have been a relatively "fresh" data set on investors' minds when oil prices rose last week.

In the second quarter, Cenovus Energy delivered the following:

- $2.9 billion in cash from operations, up 118%
- $3 billion in adjusted funds flow, up 70%
- $2.4 billion in net income, up 986%

- $900 million worth of net debt reduction

It was a terrific showing. In the second quarter, Cenovus proved that it was still capable of producing solid earnings and growth even with oil prices starting to come under pressure in June. CVE stock rallied in the immediate aftermath of the release but gave up the gains after oil prices fell. The strong release may have compounded the effect of this week's oil price gains on Cenovus's stock price.

Foolish takeaway

Cenovus Energy has been one of Canada's best-performing oil stocks this year. Up 44% for the year, it's still performing pretty well. This summer's oil price crash wasn't kind to most oil companies. They're still up for the year but are giving up some of their gains. Cenovus is one oil stock that is still holding up well.

It's not an accident. Cenovus is firing all cylinders this year, growing its earnings, paying off debt, and delivering satisfactory operational results. Whether or not oil prices stay high, its debt reduction is paving the way for improved profitability in the future. To be sure, this stock will always swing wildly with the price of oil. Over the long run, or at least as long as we depend on fossil fuels, it should perform adequately.

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