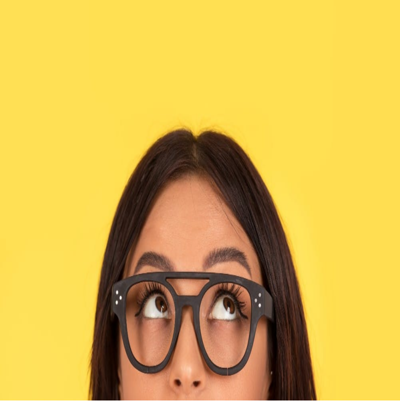

Is Cenovus Energy (TSX:CVE) the Best TSX Stock to Buy Today?

Description

The recent correction, mainly in TSX energy stocks, could be an attractive buying opportunity for long-term investors. Some names have fallen 20-30% from their highs and offer handsome growth prospects. One of them is **Cenovus Energy** (TSX:CVE)(NYSE:CVE) stock, which is currently trading 22% lower than its 52-week highs in June. Driven by strong earnings-growth prospects and a robust price environment, Cenovus Energy stock could ride higher in the second half of 2022.

What's next for CVE stock?

Cenovus reported free cash flows of $2.28 billion for the quarter that ended on June 30, 2022. This was a stellar increase from $1.28 billion in the same quarter last year. Almost all energy companies saw massive financial growth this year, thanks to higher oil and gas prices. Cenovus reported steep earnings growth even when its production marginally fell from last year.

Much of the incremental free cash flows in the energy sector have gone for deleveraging. Oil and gas companies aggressively repaid their debt and improved their balance sheet strength in the last few quarters. So, Canadian energy companies, which were once some of the most indebted and high-leverage companies, came to a much stronger footing this year. In case of Cenovus Energy, its net debt at the end of the second quarter (Q2) 2022 was $7.5 billion — a significant drop from $12.4 billion in Q2 2021.

Energy producer companies have shown an impressive capital discipline in the last few quarters. Although commodity prices are significantly high, they have not allocated substantially higher capital for increasing production. Instead, the focus has been on debt repayments and, effectively, balance sheet strengthening. For example, Cenovus had a net debt-to-EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of 15 at the end of 2020, which came down to 0.8 at the end of Q2 2022.

A lower debt balance improves the company's profitability as debt-servicing expense falls. So, Canadian energy companies like CVE have become much more attractive this year mainly due to their sound balance sheets.

Balance sheet strength and growing dividends

Cenovus Energy is expected to pay a dividend of $0.35 per share this year. That implies a meagre yield of 1.5%, whereas peers offer a much higher yield beyond 4%. However, as Cenovus achieves its net debt target in the next few quarters, it will likely allocate a higher chunk of its cash towards shareholder dividends. So, investors can expect a higher dividend and juicier yield from CVE.

Despite the recent fall, CVE stock is sitting on a 150% gain in the last 12 months. It is currently trading 10 times its earnings and seven times its enterprise value to cash flow. Many TSX energy stocks look attractive from a valuation standpoint. However, Cenvous's strong earnings and dividend-growth prospects and balance sheet improvement could support its rally.

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