Why Did Cenovus (TSX:CVE) Drop 15.7% in September?

### Description

Energy stocks have been a bright spot in the Canadian stock market this year. Most of these companies have created value even as the **S&P/TSX Composite Index** plummeted. That's the result of an acute global energy crisis.



However, like all crises, this one is volatile. Investors don't know whether today's high oil prices are sustainable, which is why energy stocks dip whenever their underlying commodity shows signs of weakness. This is why energy giant **Cenovus** (TSX:CVE)(NYSE:CVE) fell 15.7% over the course of September. Here's a closer look at what's driving this stock lower and what investors can expect in the near term.

## Why did Cenovus stock drop?

Cenovus is one of Canada's largest oil sands operators. The vast majority of its revenue is derived from oil extraction, which is why the stock price is correlated with the value of the underlying commodity.

Oil prices have been skyrocketing for much of the past year. This is why Cenovus stock is up 42.8% year to date. However, the market has weakened in recent months because of concerns about economic growth and consumer demand.

Consumers across the world are struggling to make ends meet as they struggle with inflation. Even developed nations such as Britain face an economic crisis. With a global recession on the horizon, oil and gas prices have been falling since June.

In September, West Texas Intermediate Crude Oil (WTI) fell 13% from US$91 to US$78 per barrel. Consequently, most oil and gas stocks dropped, too. Cenovus lost 15.7% of its value this month.

## What comes next?

A global recession and economic crisis are certainly real concerns. However, the energy crisis is just as real. The ongoing conflict in Ukraine has put Europe's energy security at risk, while North America is trying to plug that gap by boosting exports to the region.

Put simply, the energy supply remains tight, which puts a floor on the price of oil. Some experts believe oil prices can't go too far below US$70 or US$60. Meanwhile, the Cenovus management team believes it can meet all its strategic targets if prices remain above US$45 over the long term.

In its latest report, Cenovus said it can reduce its debt burden, sustain dividend growth, and keep investing in new expansion projects as long as oil remains above US$45. Put simply, the company's growth is sustainable even in the worst-case scenario.

If the energy crisis intensifies and prices skyrocket again, shareholders could be in for a windfall. Cenovus stock currently trades at just 11 times earnings per share, which means it's undervalued. Keep an eye on this beaten-down energy giant.

## Bottom line

Oil prices weakened in September as investors worried about a global recession. However, Cenovus has already priced this in and is likely to deliver shareholder rewards even if oil prices fall further. Keep an eye on this undervalued stock.



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**Date**
2025/07/17
**Date Created**
2022/10/04
**Author**
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