# Is Cenovus Stock a Buy in January 2023?

## Description

**Cenovus Energy** (TSX:CVE) was one of the best-performing Canadian stocks in 2022. Rising 75% for the year, it easily outperformed the markets. In fact, it outperformed even the average oil stock. For the whole year, TSX energy stocks as a group rose about 32%. So, we have Cenovus vastly outperforming other oil companies and absolutely trouncing the TSX as a whole.



The question is, where do we go from here?

In January 2023, oil prices are down from the summer 2022 levels that led to Cenovus's windfall profits. In June, West Texas Intermediate (WTI) crude oil futures reached a high of $123, the highest they'd been in decades. This led to billions of dollars in profit for Cenovus and a rapidly rising stock price. Today, this strength in oil prices is no longer with us. We're likely to see Cenovus's earnings decline from the prior year quarter, but as you're about to see, that might not be the end of the world.

## Oil prices: Where are they headed?

When you think about oil companies, you can't help but think about oil prices. Warren Buffett — who famously avoids betting on stock prices — has said several times that his investments in oil stocks were "bets on oil prices." This makes perfect sense, because oil prices partially determine oil companies' revenue and profits.

So, where are oil prices headed, and is it somewhere that's good for Cenovus?

First of all, I don't think some of the wilder oil price predictions that people have put out there will come true. Last year we saw one major bank call for $380 oil. Just a few weeks ago one said the price of WTI would go to $140. People tend to make wild predictions like this when they see a price trend and become overwhelmed with euphoria. There is little to say that oil prices will go to more than double the highest they've ever been. China's economic re-opening will have an effect, but it isn't going to double demand overnight.

What I suspect will happen is that oil will stay between $75 and $100 this year. The Organization of

Petroleum Exporting Countries has cut production by two million barrels a day (about 6% of its total production), and China is re-opening — earlier, I said that the latter item wasn't as big a factor as some think, but it is a factor. So, we'd expect oil prices to be high by the standards of most of the last decade, but not extremely high like in June 2022.

## Cenovus's financials

In its most recent quarter, CVE delivered the following:

- $4 billion in operating cash flow, up 37% from the previous quarter, and 91% from the same quarter a year before
- $2.9 billion in adjusted funds flow, up 26% from the same quarter a year before
- $1.6 billion in earnings, up 192% from the same quarter a year before

It was a pretty strong showing. Additionally, Cenovus reduced its net debt to $5.3 billion; that reduction in debt will pave the way to lower interest expenses in the future. Overall, we have a solid foundation for strong earnings, even if oil prices remain just "moderately" high, like they are now. I'd say Cenovus stock is a pretty good buy in January 2023.



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