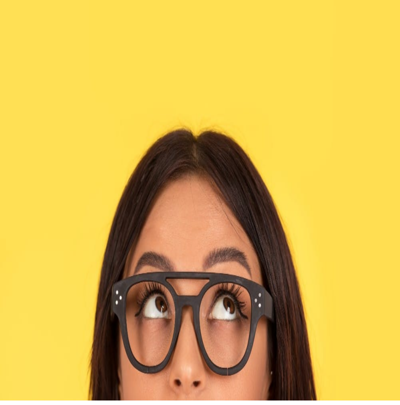

Cenovus Energy: Will This 2022 Gainer Keep its Win Streak Alive?

Description

Cenovus Energy (TSX:CVE) was one of the biggest Toronto Stock Exchange (TSX) winners in 2022. Rising 51% for the year, it easily outperformed the TSX composite index. In fact, it even outperformed TSX energy stocks, which were among the year's biggest gainers.

So, CVE stock has put a great run behind it. The question is, can it keep its win streak alive in 2023? This year, energy prices are nowhere near the level they were at in early 2022. The Ukraine war triggered mass panic about oil supplies, leading to investors bidding up the price of oil in the futures market. As a result, oil companies like Cenovus piled up windfall profits. Today, the oil companies no longer have the $123 oil tailwind to push them forward to easy victory. However, they (including Cenovus) have a number of long-term advantages that could pay off in the future.

In this article, I will explore the long-term advantages CVE stock enjoys that could make its stock worth owning in 2023.

Reasons for optimism

By far the biggest reason for being optimistic toward CVE is the fact that the company paid off a lot of debt last year. Between the third quarter of 2021 and the third quarter of 2022, CVE paid off $5.7 billion worth of debt. This debt repayment will boost earnings in the future. Debt creates interest expense — a cost that has to be cleared before a company can turn a profit. When you pay off debt, your interest expense goes down. After paying off $5.7 billion in debt, CVE likely will report higher earnings compared to what it would have had the debt not been repaid.

Another reason for optimism toward CVE stock is the fact that oil prices will likely be at least moderately strong in the year ahead. China is re-opening, which will increase demand for oil, and OPEC is cutting output, which will reduce the supply. High demand and low supply tend to produce higher prices, and we're seeing evidence that the oil market will be strong in the year ahead. I don't think we're headed back to $120 or anything like that, but prices near today's levels should be easily maintained.

Risks to watch out for

Although Cenovus Energy has many things going for it, it is exposed to many risks as well. Some of the most notable include the following:

- **ESG issues.** ESG is an acronym (environmental, social, and governance) that basically refers to ethical investing. Many investors in ESG funds prefer to avoid oil stocks due to their high-carbon footprints. This didn't stop oil stocks from rallying last year, but, over the long run, it probably holds returns back slightly compared to what they could be.
- **Lower oil prices.** As mentioned previously, there is reason to think that oil prices will stay high this year. However, they could easily fall. If OPEC made a surprise output hike, or if China locked down again, then oil prices would go lower. These risks are quite remote, but they're worth keeping in the back of your mind.

The risks above are real. On the whole, though, CVE looks set for another good year in 2023. As it's cheap, profitable, and growing, it's got a lot to love.

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andrewbutton