Cenovus Stock: Here's What's Coming Next

Description

Up 154% over the last five years, **Cenovus Energy** (TSX:CVE) stock has been a Canadian success story. This success follows a long and difficult transformation. But today, Cenovus has come out on top as Canada's premier integrated oil and gas company. For Cenovus stock, this means good things.

Let's take a look at what's coming next.

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Transition in leadership

Earlier this month, Chief Executive Officer Alex Pourbais announced his retirement. This may be concerning for some, given that it was he who bravely and successfully took the company through a very difficult period. For example, he championed the Canadian oil and gas industry when everyone turned on it. He was also able to act on his convictions, going "against the herd."

The result was Cenovus's shrewdly timed acquisition of Husky Energy. This purchase was made at ultra-cheap valuation levels, at a time when the oil and gas industry was overcome with low commodity prices and even lower investor sentiment. This has driven much of the promise that I see for Cenovus Energy in the years to come.

Cenovus stock is riding high on a strong 2022

It's no secret that 2022 was a great year for oil and gas companies. For Cenovus, earnings increased 10-fold, and adjusted funds flow increased 53% to $11 billion. Furthermore, Cenovus was proving out its whole rationale for that controversial Husky acquisition — the resulting cost efficiencies and flexibility were front and centre.

For example, the Lloydminster refinery is seeing strong utilization with strong margins. Also, the LIMA refinery is running reliably, while generating $1.1 billion in operating margin and its best-ever safety performance.

This strong performance has led to a sharp reduction in Cenovus's leverage and two credit agency upgrades. In fact, Husky reduced its net debt to $4.3 billion in 2022, $5.3 billion lower that last year. Also, Husky tripled its dividend and bought back shares. All of this is contributing to shareholder value, both directly and indirectly. This will, in turn, lead to a lower risk weighting being applied to Cenovus stock.

Multiple expansion despite lower oil prices

Shareholders of CVE stock have a lot to look forward to. First of all, the company's lower debt levels will do wonders for the stock's perceived risk level. This will drive up its multiple. Today, Cenovus stock is trading at depressed multiples of under eight times earnings and 4.4 times cash flow. With its debt levels significantly lower, and its significant return of capital to shareholders, demand for the stock should rise, along with multiples.

Secondly, Cenovus is working hard on its new portfolio of downstream assets. These former Husky Energy refineries are the key value catalysts for Cenovus's stock price in the coming years. This is because Cenovus's goal is to get these assets operating at the same operational efficiency levels as Cenovus's upstream assets. These assets are known to be quality assets that are operating at highly efficient levels.

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Lastly, no discussion of Cenovus's future would be complete without mentioning the new and improved integrated business that it is today. Having the integrated business, which includes the upstream and downstream businesses, provides Cenovus with the flexibility and fortitude to make money in all commodity cycles. It gives Cenovus's production access to refineries, storage, and a whole integrated value chain. This will enable Cenovus to be more resilient and more responsive. In the end, this will drive Cenovus's success and Cenovus's stock price higher.

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