Up by 25%: Is Cenovus Stock a Good Buy in February 2023?

Description

The energy index in Canada experienced the most significant bull market after the 2020 crash, partly because it was one of the hardest-hit sectors during COVID and fell 64% in a little over a month. The recovery and the bullish phase were just as profound. The index has risen about 400% so far.

However, the growth started to flatten out by June 2022, and even though the index is staying afloat, the chances of it going up could be much better.

Investors who got in the right energy stocks at the right time might consider holding on to their assets long term. Or, if they were only in it for the recovery, they might be planning their exit. The conundrum is different for investors looking into energy companies for dividends.

Most stocks are trading at or near their all-time high, and investors might be waiting for a correction to lock in a more discounted yield. Considering the situation, it's difficult to give a buy signal for a stock like **Cenovus Energy** (TSX:CVE). Because even though the stock has risen 25% in the last 12 months, the chances of future growth are not very bright.

An integrated energy company

Cenovus is an energy giant with a market capitalization of about $47 billion. It has both on-shore and off-shore assets and markets itself as an integrated energy company. The company's operations cover both upstream and downstream functions, from extractions to selling the final products to end consumers. It also offers marketing services for a wide range of products.

The three main product segments for the company are oil sands, on-shore conventional, and off-shore, with oil sands dominating the production by a significant margin. It also has refining capabilities of 740 million barrels per day and a reserve life index of over three decades.

This makes Cenovus a good long-term investment if you believe in the potential of oil as an asset, since natural gas only makes up a small portion of the company's output mix.

The stock

The company is currently trading at about a 105% premium to its pre-pandemic peak, but it's still at a price point roughly two-thirds of its all-time high (2012). The powerful price appreciation has lowered the yield to 1.7% and effectively eroded its appeal from a dividend perspective. But this may change if the stock goes into correction mode.

The stock has mostly hovered around $25 per share in the past seven to eight months, and it's clear that it may not go up or down independently of the sector.

The sector's prospects of growth in the near future may not be as bright as they were a couple of years ago, and even though Cenovus is very attractively valued right now, with a price-to-earnings ratio of 7.66, buying it for growth may not be a very smart move.

Foolish takeaway

Most energy stocks are in the same boat as Cenovus, though not all of them may suffer the same way during a correction mode. Integrated producers and upstream heavyweights might suffer more if the oil price goes down significantly enough, while midstream companies may field a "lighter" blow from the market.

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Date
2025/08/11
Date Created
2023/02/21
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