



## FEATURED OPTIONS RADAR REPORT



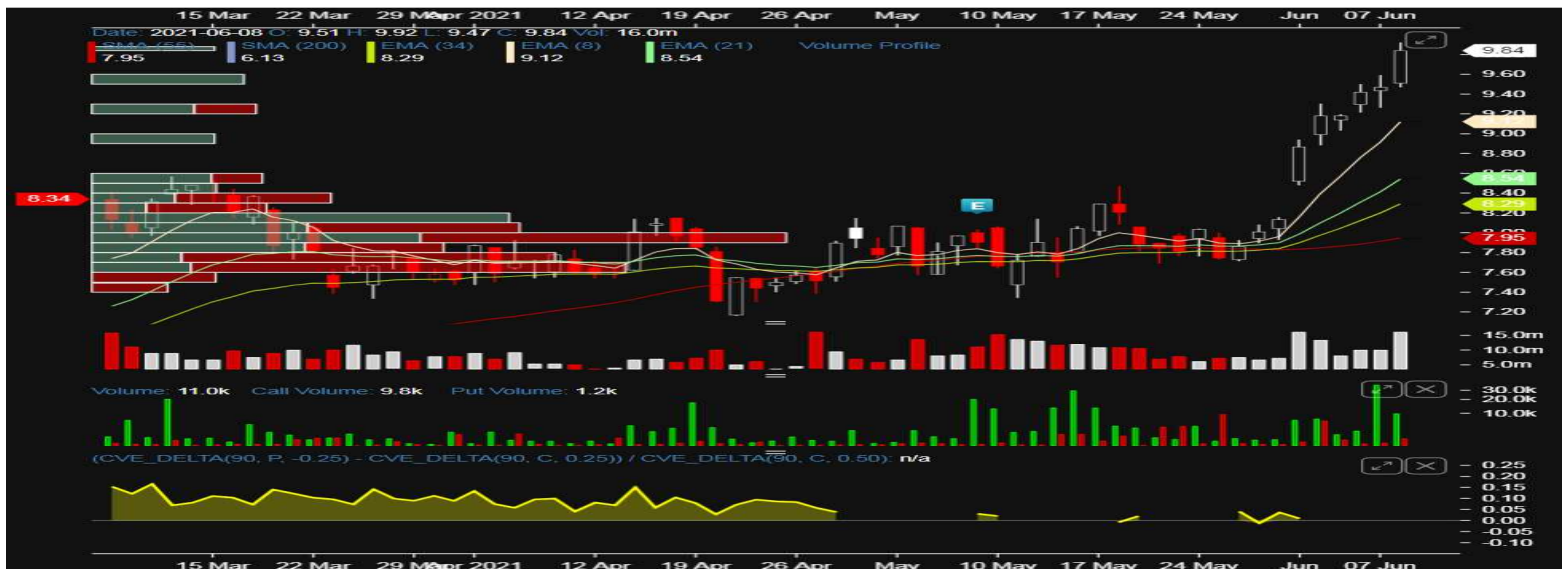
### Cenovus Energy Bullish Bets Accumulate on Husky Deal Synergies, FCF Generation

Ticker/Price: CVE (\$9.84)

#### Analysis:

**Cenovus Energy (CVE)** a name with 176,000 calls in open interest comparing to just 33,000 puts and has built up some considerable positions. In June the \$9 calls had 10,000 bought at \$0.15 on 5/13 and another 14,000 on 5/14 that remain in open interest while the 8000 June \$8 calls bought on 5/7 also sit in OI. In July the \$10 calls were bought 25,000X to open on 6/7 at \$0.45 to \$0.55. The September \$10 calls have 18,000 in open interest from buyers on 3/9 and 3/11 at \$0.85 to \$1.05. A trade on 5/25 sold 8750 December \$7 puts to open. CVE also has over 32,000 January \$10 calls in OI. CVE shares have been on a strong run with Oil/Gas prices and a recent weekly flag breakout above the \$8 level and approaching \$10.35 as a major resistance level that held firm on monthly closes from April 2017 to January 2020. Cenovus combined with Husky Energy in October in an all-stock deal to create a larger oil & gas company that now has the Oil Sands, Conventional, and Offshore businesses as well as a Downstream business. Following the closing of the Husky transaction, CVE represents the third largest Canadian oil and natural gas producer and the second largest Canadian-based refiner and upgrader. CVE carries \$13B in debt and expects to make substantial progress on deleveraging through the rest of the year targeting \$10B by year-end and opening the door to consider other forms of capital allocation, including increasing shareholder returns. CVE also may consider asset sales to speed up the debt payback. CVE currently has a market cap of \$19.35B with shares trading 9.6X Earnings and 5.5X EBITDA. The Canadian oil names set up well in 2021 with low cost structure and low asset decline rates allowing for strong FCF generation, an advantaged Canada refining environment vs. the US due to a structurally short product market and improving pipeline access in 2022/2023. CVE particularly has strong synergy opportunities with the Husky deal, an Asian gas business providing strong FCF, and discounted valuation with potential for resuming capital returns. Analysts have an average target of \$11.50 with short interest minimal at 0.5% of the float. JP Morgan upgraded shares to Overweight his week with a C\$14.50 target and CSFB last week raising its target to C\$13. Scotiabank upgraded shares to Outperform on 4/15 citing improving fundamentals with its leverage to both higher oil prices and crack spreads with potential asset sale catalysts as well as the commitment to improve the balance sheet.

#### Hawk Vision:



**Hawk's Perspective:** CVE has run about 25% recently and needs to settle back some but the name remains cheap and as long as the higher oil/gas environment persists, a name that can trade another 50% higher.

**Confidence Ranking:** \$\$