



Cenovus Energy Calls Accumulate in Size

Ticker/Price: CVE (\$7.50)

Analysis:

Cenovus Energy (CVE) today seeing another 17,500 March \$8 calls bought for \$0.55, spot where over 10,000 were bought yesterday. CVE has 6,500 of the \$9 calls and over 50,000 of the \$10 calls in open interest already as well as more than 8,500 Jan. 2020 \$8 short puts from August. Shares are back near support from 2017/2018 around \$7 and inverted head-and-shoulders under \$8.25 targets a move back to \$10.25. The longer-term range breakout above \$10.50 has room back to a big volume node from 2016 around \$14.50. The \$9.4B drilling and exploration company trades 4X EV/EBITDA, 0.58X sales, and 5.45X FCF with a 2% yield. The company expects 45% EPS growth in FY20 with revenues flat. CVE expects spending to be modestly lower in 2019 while raising its oil sands production estimates as it implements a number of efficiency improvements in its operations. They also are cutting back on plans to develop the Deep Basin and focusing on higher-margin wells like Foster Creek and Christina Lake which has a planned expansion in 2019. In September, the company reached a deal with Canadian National (CNI) to increase crude-by-rail deliveries. JP Morgan upgraded shares on 9/10 to Overweight noting that the deal removes a key overhang for near- and intermediate-range visibility. The company's focus on deleveraging will also unlock "cheap" FCF yield. CIBC started coverage at Outperformer in October while TD and Scotiabank both upgraded to Outperform in late October, the latter citing trough valuations and an improved strategy and focus. Analysts have an average target for shares of \$12.70 with 6 buy ratings and 8 hold ratings. Short interest is 3% of the float and down from recent peak near 4% in late 2017. Institutional ownership rose 24% last quarter. Harris Associates a buyer of 43M shares while Conoco Philips owns 208M shares, ~20% of the company.

Hawk Vision:



Trading Strategy: CVE is clearly a speculative Energy play and retesting a trend breakout with the move lower this week. It looks to have some strategic value here and the COP stake is interesting, a right shoulder at \$7 would be an ideal entry.

Confidence Ranking: \$\$