Market Research

UW FINANCE ASSOCIATION

Research and Education

Weekly Equities Update

TSX: +0.83% **S&P 500: -0.89%** **Dow: -2.03%**

Fahad Salman

Research Analyst

Summary

Over the past week, the Canadian equity markets were slightly higher due to increases in energy, financials, and utilities. U.S. equities have been decreasing because of tensions with China but we may be seeing a rebound this week after the Dow broke its 8-day losing streak on Friday.

As oil prices have continued to rise following actions taken by the U.S., we have seen large gains in the energy sector. Cenovus Energy, being one of the largest oil companies in Canada is one of the reasons why the TSX closed higher last week, as it rose 8.6% over the week.

Cenovus Energy Inc. (TSX:CVE) (NYSE:CVE)

Cenovus Energy is a $16.32 billion Canadian integrated oil and natural gas company. According to CVE, “it is committed to maximizing value by responsibly developing its assets in a safe, innovative and efficient way.” It is engaged in developing, producing, and marketing crude oil, natural gas liquids and natural gas in Canada with marketing activities and refining operations in the U.S.[1] More specifically, it operates oil sands extraction projects in Alberta with established natural gas and oil production in Alberta and British Columbia. Additionally, CVE has stakes in refineries which operate in the U.S.

Cenovus has been consistently focusing on capital discipline, cost reductions, and deleveraging its balance sheet.[2] It has reduced the amount of capital needed to sustain the base business and expand any future projects. Not only are costs being reduced, but CVE has been focusing on using technology and innovation to achieve margin improvement. As Cenovus continues to grow its revenue, focus on reducing its costs and capital requirements, and consistently strives for innovation, investors can expect great results.

A challenge that the company has been facing is the market access constraints for Canadian crude oil production. The strategy here is to maintain firm transportation commitments to support growth plans but leave capacity for optimization. Additionally, the company is expecting to supplement firm capacity with active blending, storage, sourcing, and destination optimization to ensure maximizing the margins on barrels that are produced.

Ultimately, as Cenovus continues to manage its growth and operational efficiencies, we can expect great long-term growth. Not to mention, events such as the U.S. cutting oil and gas imports from Iran and Venezuela benefit CVE as the price for its products continues to rise. While efficient management of its operations and a decreased supply of oil are very positive, one thing to watch out for is how tough the constraints are for market access. As additional pipelines are added in Canada, we may see these constraints begin to dissipate.

[1] https://web.tmxmoney.com/company.php?qm_symbol=CVE
[2] https://www.cenovus.com/invest/docs/2018/Q1-2018-Management-Discussion-Analysis.pdf

Week Over Week Index Performance by Sector

TSX	Up	Down
Materials	55%	45%
Communications	67%	33%
Consumer Discretionary	26%	74%
Consumer Staples	91%	9%
Energy	74%	26%
Financials	67%	33%
Health Care	56%	44%
Industrials	36%	64%
Real Estate	68%	32%
Technology	62%	38%
Utilities	80%	20%

S&P500	Up	Down
Materials	15%	85%
Communications	75%	25%
Consumer Discretionary	33%	67%
Consumer Staples	57%	43%
Energy	75%	25%
Financials	26%	74%
Health Care	43%	57%
Industrials	13%	87%
Real Estate	90%	10%
Technology	10%	90%
Utilities	89%	11%

TSXV	Up	Down
Materials	34%	66%
Consumer Discretionary	43%	57%
Consumer Staples	33%	67%
Energy	48%	52%
Financials	42%	58%
Health Care	59%	41%
Industrials	55%	45%
Real Estate	67%	33%
Technology	64%	36%

Dow Jones	Up	Down
Communications	100%	0%
Consumer Discretionary	0%	100%
Consumer Staples	67%	33%
Energy	100%	0%
Financials	20%	80%
Health Care	25%	75%
Industrials	0%	100%
Technology	20%	80%

NASDAQ	Up	Down
Materials	54%	46%
Communications	48%	52%
Consumer Discretionary	52%	48%
Consumer Staples	61%	39%
Energy	77%	23%
Financials	62%	38%
Health Care	46%	54%
Industrials	47%	53%
Real Estate	62%	38%
Technology	33%	67%
Utilities	72%	28%

Note: Percentages Up and Down are percentages of the total number of stocks in the sector and are not stock returns

Sources: Questrade IQ Edge, S&P Capital IQ, Google Finance