



Can Cenovus Energy Deliver Strong Enough Results to Fuel Your Portfolio?

Description

Cenovus Energy ([TSX: CVE](#)) ([NYSE: CVE](#)) is sitting on a lot of oil. That's always a good start. The question is if that's enough to drive strong future returns for investors.

One of the best ways to gauge whether a company will deliver solid returns is to consider all aspects of its future by taking a closer look at its strengths, weaknesses, opportunities and threats. A SWOT analysis forces an investor to consider both the good and the bad. In the end, an investor can then determine whether or not a company has the right combination of strengths and opportunities to overcome its weaknesses and threats. With that as a backdrop, let's take a closer look at where Cenovus is strongest.

Massive resource base

Cenovus is sitting on an unfathomable resources base. Its 1.5 million net acres in the oil sands holds discovered bitumen totaling 93 billion barrels. To put that number into perspective, it's three times America's current proved oil reserves. That said, Cenovus doesn't control, nor will it produce all of that oil. Its current economic contingent resource is 9.6 billion barrels of bitumen and its total proved and probable reserves are 3.1 billion barrels of oil equivalent. Any way it's sliced, Cenovus is sitting on a lot of oil, which is the foundation of its business.

Because of its massive resources base, Cenovus has [very visible oil production growth](#) of about 11% annually for the next decade. Most of this growth will come from its joint venture with **ConocoPhillips** ([NYSE: COP](#)). The two are 50% partners on three oil sands projects: Foster Creek, Christian Lake and Narrows Lake. Each project has multiple phases that will come online over the next decade.

In addition to the ConocoPhillips joint venture, Cenovus has two emerging projects with the potential to drive its next phase of growth. These projects, Telephone Lake and Grand Rapids, are wholly owned by Cenovus and could begin producing early next decade.

Industry leading metrics

What's important for investors to realize is that not only is Cenovus sitting on a lot of oil, it's one of the

best at producing that oil profitably. The company has industry leading steam-to-oil ratios at most of its projects. This has several significant advantages including lowering capital and operating costs, reducing energy use and emissions as well as using less water. This enables Cenovus to be among the lowest cost suppliers of oil in the industry. It can produce oil for as little as \$35 per barrel.

One of the reasons Cenovus is leading the way in producing oil for less is its focus on technology. For example, the company uses Wedge Well technology that was commercialized in 2010. It helps to accelerate production and increases the recovery factor of a well. Another example is that Cenovus uses solvents to aid in the oil recovery process. This decreases the steam-to-oil ratio and increases recovery rates. While it costs more up front, it does reduce sustaining capital and operating costs.

Integrated approach

While Cenovus' core business is its oil sands operations, it's more than just an oil company. When it was spun off from **EnCana** it received the conventional oil assets, some natural gas assets and the refining assets. This integrated approach helps smooth out returns. What's interesting is that just a few years after the spinoff, EnCana is now realizing the benefits diversification and is once again pursuing its own oil growth.

For the most part, Cenovus manages its conventional assets for cash flow to fund its oil sands growth. Meanwhile, its natural gas and refining assets provide a natural hedge for its oil production. These assets provide a nice foundation of stability and throw off a lot of cash flow.

Investor takeaway

Cenovus Energy has the strong foundation necessary to fuel long-term market beating returns. That said, those returns could be impacted by areas of weakness as well as threats to Cenovus' business. Stay tuned to Fool Canada as we look closer at what could derail Cenovus' success.

CATEGORY

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