Will Cenovus Deliver For Investors This Week?

Description

Cenovus Energy (TSX:CVE, NYSE:CVE) will release its quarterly report on Thursday. Given that the entire industry is struggling with the shortage of takeaway capacity for oil sands bitumen and rising costs, it should be no surprise to see a stock like Cenovus on the 52- week low list. But the company may still have some good news up its sleeve to deliver for investors.

Stats on Cenovus Energy

Analyst EPS Estimate	$0.37
Change From Year-Ago EPS	640%
Revenue Estimate	$4.74 billion
Change From Year-Ago Revenue	27%
Earnings Beats in Past 4 Quarters	1

Source: Yahoo! Finance

What will Cenovus deliver this quarter?
Analysts have cut their views recently on Cenovus' earnings, with a $0.10 per-share drop in fourth quarter estimates in addition to a quarter per-share for the full-year of 2014. Predictably the stock has been moving lower, down 9% since the company last reported earnings.

So what has the analysts so worried? The company's Foster Creek oil sands venture is showing signs of age. Last quarter production at the flagship project fell 22% year-over-year thanks in large part to planned maintenance. Contributing to the decline: a higher number of wells were also shutdown for routine maintenance during the quarter.

Like other oil sands players, Cenovus has been struggling to contain costs which have started to bubble up across the industry. In the third-quarter, costs at the steam-driven project jumped 49% from a year earlier on lower production volumes and a higher steam-to-oil ratio. And during the conference call, Cenovus executives predicted that thanks to higher fuel and start-up costs associated with a new production phase, operating costs Foster Creek could jump as much as 7% to $16.00 to $17.40 per barrel. No doubt investors will be watching the expense lines in the income statement closely this week.

Looking beyond costs, Cenovus will be focused on dialing down spending and developing a backlog of oil projects. In an attempt to boost cash flow, the company has cut its 2014 capital spending budget by 13% from the previous to between $2.8-billion and $3.1-billion.

What does all of this mean for investors? Well, big spending cuts will free up a lot of capital. And that means a dividend hike could be in the cards for Cenovus investors this week.

Cenovus executives have been committed to rewarding shareholders. Over the past two years the company has increased its dividend by over 20%. And with production expected to rise another 10% this year, Cenovus will have plenty of extra free cash to hike its payout or start some sort of a share buyback program.

Foolish bottom line
Expectations are set pretty low for Cenovus heading into this quarter. Investors have been completely focused on rising costs and there're few obviously catalysts that could lift the stock in the near term. But even if the company could deliver a mediocre quarter, say a bigger than expected dividend hike or better operating results, the stock could have room to run following the report.

CATEGORY

1. Investing

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1. NYSE:CVE (Cenovus Energy Inc.)
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