This Oil Stock Is Gushing Dividends

Description

cenovus facility Image not found or type unknown Some investors think they have to choose between growth and income. Why not both?

Case in point: **Cenovus Energy** (TSX: CVE)(NYSE: CVE).

Cenovus exemplifies what I look for in a dividend investment: an above-average yield, good growth potential, and a shareholder-friendly management team.

Buoyed by rising oil production and higher energy prices, the oil sands giant has increased its payout three times since going public in 2009. In February, the company hiked its quarterly dividend 10% to $0.266 per share — one of the largest increases in the company's history and a signal that management sees more good times ahead.

Today, the oil sands champion yields 3.3%. That's almost twice as large as the average yield in the Canadian energy industry and nearly the highest of its oil sands peers.

Company	5-Year Dividend Growth	Yield
Suncor Energy	29.76%	2.11%
Imperial Oil	5.20%	0.96%
Canadian Natural Resources	23.36%	1.94%
Cenovus Energy	N/A	3.26%
Husky Energy	19.14%	3.34%

Source: MSN Money

More importantly, Cenovus has the resource base to continue growing that dividend for decades to come. The company owns 2.1 million acres in Alberta's oil sands region and is sitting on about 8.2 billion barrels of economically recoverable bitumen. Anyone familiar with the industry knows that these assets are top-tier.

Most of that growth will come from the company's Foster Creek and Christina Lake in-situ projects. Management is rolling out additional phases, with plans to add up to 620,000 barrels per day of gross production through the end of 2019.

Cenovus has other expansion avenues as well, including Narrows Lake and Grand Rapids. In total, the company has already secured the government permits needed to add 310,000 barrels per day of gross production. Altogether, management wants to expand its oil sands production at a 10% compounded annual clip over the next 10 years.

Of course, Cenovus is no slam dunk. Foster Creek — the company's largest project currently in production — is showing signs of age. Management is struggling to optimize production and control costs. As a result the stock has been pummelled, underperforming the **S&P/TSX Capped Energy Index** (^TTEN) by 22% over the past year.

However, in recent quarters it's becoming apparent that management has wrapped its head around the challenges at Foster Creek. To improve output, the company is letting steam circulate in the reservoir for longer periods of time before starting up production. While this is costly today, the long-term production gains outweigh the added expense.

Of course, Bay Street traders aren't known for their long-term investment horizons. This may have created an opportunity to buy the stock at a discount.

On almost every valuation metric — such as enterprise value to EBITDA, price-to-earnings, and price-to-cash flow — the company's shares are trading at their lowest multiples since its initial public offering. The stock is also trading at a discount to its larger-cap energy peers, which is unexpected given its superior growth prospects.

Problems aside, Cenovus is a top-tier oil stock gushing with dividends. For investors who can stomach volatile oil prices, this stock would make a great addition to any income portfolio.

CATEGORY

1. Investing

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

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