3 Reasons to Buy Cenovus Energy Inc. Over Crescent Point Energy Corp.

Description

The past couple of years have been quite good for shareholders of **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG). Since the beginning of 2013, its shares have gone up 17%, and that's not including a very attractive dividend. The company seems to be firing on all cylinders.

Meanwhile, over the same time period, shares of **Cenovus Energy Inc** (TSX: CVE)(NYSE: CVE) have been virtually flat. Shareholders haven't benefited from a lucrative dividend, either. Over this time, the company has run into some operational challenges, and investors seem to be getting tired of the issues.

That being said, there are reasons why you should consider buying Cenovus over Crescent Point. Below we take a look at three of them.

1. A bright future for heavy oil

If you look back to a year ago, nothing seemed to be going right for heavy oil producers in Alberta. These companies had to accept discounted prices for their product, and investors pushed stock prices down. However, since then, transportation bottlenecks have eased and prices have crept back up.

The best could be yet to come. More pipelines could be built in the future — depending on regulatory hurdles, of course — and the growth of crude transportation by rail continues to be a boon to these producers.

Cenovus stands to benefit more from these trends than Crescent Point does. While the former makes its money primarily from heavy oil in Alberta, Crescent Point focuses on lighter oils in Saskatchewan, Manitoba, and Utah. If you're looking to make a bet on Albertan heavy oil, Cenovus is a better option than Crescent Point.

2. Attractive economics

In energy, it helps to be a low-cost producer. The reason is quite simple: If you're producing at a lower cost than everyone else, that gives you more staying power during the down cycles. Among Canadian oil producers, Cenovus has some of the lowest-cost operations in the industry.

In fact, its Foster Creek operation has been cited as *the* lowest-cost heavy oil operation of its kind in all of Canada. Its operations at Christina Lake are also among the best.

3. A better approach to shareholders

Despite these things, the *real* reason to prefer Cenovus over Crescent Point is its approach to shareholders. The difference between the two companies is night and day.

Cenovus takes a fairly measured approach, with a modest dividend that the company can easily afford. To illustrate, the company pays out an annualized dividend of $1.06 per share, not too much compared to last year's $4.67 per share in cash flow.

Meanwhile, Crescent Point is far more aggressive with its dividend, paying out $0.23 per share per month. This is an amount the company simply cannot afford to pay in cash, so it incentivizes shareholders to take their dividends in additional shares. Mostly as a result of this strategy, Crescent Point's share count increased by over 30% from 2011 to 2013. In contrast, Cenovus's share count has stayed virtually flat for years.

The verdict

Crescent Point is popular with a lot of investors because of its big dividend yield, which currently stands above 6%. Don't be tempted, though — it's more important to look beneath the dividend at company fundamentals, and there are few energy companies with better fundamentals than Cenovus.

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