What to Watch When Cenovus Energy Inc. Reports This Week

Description

Earnings season is starting up, and over the next few weeks hundreds of firms will begin reporting their quarterly results. One of the keys to making smart decisions during this time of year is to prepare for the report *before* companies begin announcing results. That way, you'll be less likely to make any knee-jerk reactions.

Cenovus Energy Inc. (TSX: CVE)(NYSE: CVE) is one of the first out of the gate. The energy giant is one of the biggest players in the oil sands, where high energy prices have made it profitable to recover crude from the thick, tar-link bitumen underneath Alberta. However, the recent market turmoil puts many of those projects in jeopardy.

Let's take a quick peek at what's been happening with Cenovus over the past quarter and what we're likely to see in it reports on Thursday.

Stats on Cenovus

Analyst EPS Estimate	$0.42
Year-Ago EPS	$0.41
Revenue Estimate	$4.63B
Change from Year-Ago Revenue	-8.80%
Earnings Beats in Past 4 Quarters	2

Source: Yahoo! Finance.

Will Cenovus be able to deliver this quarter?

Nothing is going right in the Alberta oil patch. Weaker energy prices have absolutely hammered producers. Continued delays of the **TransCanada** Keystone XL pipeline have also resulted in lower bitumen prices relative to other crude blends.

This has taken the bid out from underneath Cenovus shares. Since September, the stock has been off more than 25%. Bay Street is also pulling back on their profit projections, taking $0.06 off from the consensus earnings estimate for the fourth quarter.

While Cenovus may be earning less on every barrel it produces, the firm is looking for ways to maintain margins by cutting costs. Over the past few years, management has been relying on rail to ship their production to buyers — an expensive method of transporting oil products.

Cenovus has been experimenting with methods to recover condensate, an expensive hydrocarbon used to thin bitumen, before shipping it in railcars. If the company can pull this off, Cenovus could significantly cut the cost of moving crude by rail. Perhaps in time, rail could even achieve cost parity with pipelines.

Investors are also increasingly worried about the company's oil sand operations. Foster Creek, one of the first facilities to extract bitumen using steam, is starting to show signs of age. Last quarter, Cenovus reported operating costs increased 20% year over year to $19.38 per barrel.

But the real problem is the fact that management is entering into completely new territory. Now that Foster Creek has been in operation for over a decade, Cenovus is struggling to figure out how to optimize production from its wells. It's work that CEO Brian Ferguson likens to going to the moon.

Heading into the next phase of development, Cenovus plans to inject steam for an extra month before production. However, analysts point out that injecting additional steam is costly. More steam could also draw attention from environmentalists thanks to higher carbon emissions and water usage.

With all of those concerns in mind, the bar is low for Cenovus heading into this quarter. Investors should closely watch the status of these two initiatives. Any good news could send shares soaring.

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