3 Reasons to Buy Cenovus Energy Inc. Right Now

Description

The carnage in the Canadian oil patch is giving investors a great opportunity to buy top-quality names at very reasonable multiples.

Cenovus Energy Inc. (TSX: CVE)(NYSE: CVE) recently hit a five-year low, but the company just reported strong third-quarter results and the long-term prospects still look very good.

Here are three reasons why I think investors should consider buying the stock right now.

Integrated business model

Cenovus is primarily known for its oil sands operations but the company also operates a massive refining division. In fact, Cenovus has the capacity to refine more than 430,000 barrels of oil per day. The earnings diversification makes Cenovus more attractive than the pure-play producers because the revenue stream coming from the refining division helps offset any weakness on the production side when oil prices drop.

It's important to note that earnings from the refining business can vary. Unplanned shutdowns can have a short-term impact on revenues, as they did in the third quarter, but overall, the integrated model should be viewed as a positive for investors.

Production growth

Cenovus operates three major oil sands projects with its partner, **ConocoPhillips** (NYSE: COP).

The Cristina Lake project produced more than 68,000 barrels per day in Q3 2014, a 30% year-over-year increase. The recent production growth at the project is impressive, but the key point for investors is the long-term potential of the site. Christina Lake has a total gross production capacity of more than 300,000 barrels per day.

Foster Creek is the company's second oil sands operation. In the third quarter, it produced nearly 57,000 barrels per day, a 15% increase over the same period in 2013. Cenovus just completed the phase F expansion at Foster Creek, and the new unit began production in September. Phase G is nearing completion and should come online in 2015.

Cenovus expects Foster Creek to hit its full production capacity of 295,000 barrels per day by 2019.

The third project under development is Narrows Lake. With a target capacity of 130,000 barrels per day, the site has enough resources to last more than 40 years.

Dividend growth

Cenovus has increased its dividend in each of the past three years. The current payout of $1.06 yields about 3.8%. As production continues to increase at the three oil sands sites, cash flow available to shareholders should increase. The long-term prospect for dividend growth is significant. Development of the three projects is very capital intensive, and will continue to use up a significant part of revenues. Once the facilities are all completed and in full production, Cenovus will become a free cash flow machine.

The bottom line

Cenovus is a very attractive play for long-term investors. The market has driven the stock significantly lower in recent months and investors with a long-term perspective should consider adding Cenovus to their portfolios. The stock is severely oversold at current levels and any upward movement in oil prices will probably send the shares much higher.

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