3 Reasons to Buy and Hold Cenovus Energy Inc.

Description

The recent market turmoil has battered equities, and no other sector has been hit harder than the Canadian oil patch. Shares of **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE), one of the nation's largest oil producers, have plunged 20% over the past three months.

Is it time to bail? Hardly. If you like buying great companies when Mr. Market is off his medication, then Calgary-based Cenovus may be worth a look. Here are three reasons to buy the dip and add this stock to your portfolio.

1. This stock is gushing dividends

Buoyed by rising output and energy prices, Cenovus has increased its payout three times since going public in 2009. Earlier this year, the oil sands giant hiked its quarterly dividend 10% to $0.27 per share. That was one of the largest increases in the company's history and a signal that management sees more good times ahead.

Today, Cenovus yields 3.9%. That's almost twice as large as the average yield in the Canadian energy industry and nearly the highest of its oil sands peers.

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Source: MSN Money.

2. Good outlook for the oil sands

More importantly, Cenovus has the resource base to continue growing that dividend. The firm owns 2.1 million acres in northern Alberta and is sitting on about 8.2 billion barrels of economically recoverable bitumen. And as anyone who is familiar with the industry knows, these are top-tier assets.

Most of the company's growth will come from its Christina Lake and Foster Creek in-situ projects. Management has started to wrap its head around the operational challenges that hurt production earlier this year. With the rollout of more phases, Cenovus expects to add up to 620,000 barrels per day of production through the end of 2019.

Cenovus has other expansion avenues as well, namely Grand Rapids and Narrows Lake. In total, it has already secured the government permits needed to add 310,000 barrels per day of output. All in, executives plan to grow oil sands production at a 10% annual clip over the next decade.

3. The smart money is moving in

It never hurts to peek over the shoulders of the world's greatest investors, and it doesn't get much better than Jean-Marie Eveillard. In August, SEC filings revealed that the legendary value investor increased the size of his stake in Cenovus. As of June, he owned 34 million shares valued at US$1.1 billion.

Other smart money managers are also moving into the stock. A number of billionaire investors — including Ray Dalio, Jorge Lemann, and Dmitry Balyasny — own large stakes in Cenovus. Respected value investor Paul Marshall also ramped up his position last quarter, bringing his total stake in the company to US$10.4 million.

If you don't buy this stock now, you'll kick yourself later

Cenovus offers a great combination of growth and yield. That's why this stock deserves a core position in any income portfolio. If you have been waiting for an opportunity to buy this firm, Mr. Market has just handed you a chance.

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rbaillieul