3 Things Cenovus Energy Inc. Wants You to Know

Description

Last week, **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) reported its third-quarter results. In addition, it held a conference call with analysts and investors to discuss its results in a little more detail. Here are some of the highlights of that conference call.

It's making money despite falling oil prices

"Despite a weaker commodity price environment in the third quarter, we continued to generate significant cash flow from our upstream business." – CEO Brian Ferguson

Cenovus Energy and joint venture partner **ConocoPhillips** (NYSE: COP) continue to work toward driving costs down in the oil sands in order to produce more cash flow. One area where this is really have a big impact is in the steam-to-oil ratio, or SOR at the Foster Creek and Christina Lake oil sands facilities. Last quarter, the SOR at Foster Creek was 2.8, which was slightly better than expected despite the fact that it had some headwinds due to new steam startup procedures. Meanwhile, the SOR at Christina Lake was 1.7 in the quarter, which was also better than anticipated.

The strong SOR at both facilities is enabling the partners to keep costs down and make money even as oil prices are weak. At Christina Lake, for example, operating costs declined by about a dollar per barrel in the quarter while operating costs at Foster Creek also fell from the first half of the year. This enabled the company to deliver strong cash flow in a challenging quarter.

Refining is gushing cash flow these days

"Refining business has generated over $400 million in free cash flow, highlighting the value of our integration." – CEO Brian Ferguson

Cenovus Energy's downstream business also faced some big headwinds in the quarter, but it still continues to generate strong cash flow for the company. This past quarter, its refining operations had lower profitability due to both planned and unplanned downtime as well as lower margins hurt the bottom line. However, the business still generated strong cash flow this quarter, which helps to support its generous dividend as well as its growth plans.

Rail is an important driver of margins

"We continue to believe that having the option to move barrels by rail to complement our portfolio of pipeline commitments over the next few years will be beneficial and feel that continuing to develop new markets by rail will improve our oil sands netbacks." – COO John Brannan

Cenovus Energy has increased its total rail capacity to 30,000 barrels per day. Right now, this capacity is serving as a bridge to get its oil to markets until new pipeline capacity can be built. However, the company is finding that having the rail flexibility is providing it with the opportunity to find new markets, which is improving its margins and cash flow. So, we should expect the company to continue to add additional rail optionality in the future as there is no telling when a new major oil sands pipeline will be built.

Investor takeaway

By focusing on low-cost oil and combining that with refining and the optionality of rail, Cenovus Energy is able to deliver solid results despite lower oil prices. Because of this, Cenovus Energy offers investors a lower-risk energy option as it should still generate strong cash flow even in a lower oil price environment. That cash flow is increasingly being returned to shareholders in the form of an ever growing dividend making the company a great option for income investors as it offers a very generous yet safe payout.

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