

# Cenovus Energy Inc's 2015 Outlook: The Good and the Bad

## Description

**Cenovus Energy Inc** ([TSX: CVE](#))([NYSE: CVE](#)) is the latest company to cut its spending budget as WTI crude drops further (it closed at \$59.95/bbl in Thursday's trading session).

The company has announced it is slashing its capital budget by 15% to \$2.6 billion. But, shareholders will be relieved to know Cenovus is not touching its dividend.

What does this mean for the company in the New Year? And more importantly, what do investors need to know before they decide to take the plunge and invest in this energy company?

Let's start with the bad news.

### The bad news:

- 1. More spending cuts:** Although cuts in capital budget for energy companies can be expected given the current market environment, there is a big chance that Cenovus will cut its budget again in 2015. The company said it will review its capital spending in the first quarter of next year and may adjust its budget depending on the outlook for oil prices. Cenovus' budgets are currently based on oil being at US\$77 in 2015, but if crude ends up around \$65 the company would reduce capex to about \$2.1 billion.
- 2. Hiring prospects:** The company plans to freeze hiring in 2015. This can be an issue since it implies no growth expansions.
- 3. Higher cash taxes and transport costs:** Cenovus also predicts its cash taxes will more than double, compared to what analysts have been expecting – about \$370 million. Transportation costs, too, will increase due to a new Cold Lake Pipeline agreement with **Inter Pipeline Ltd.**

### The good news:

On the positive side, there are a few things that are also looking good for Cenovus.

- 1. Secure dividend:** Cenovus has maintained its 5% yield to its investors and the company intends to keep it that way. Of course, things could change if oil prices fall to say, \$30 a barrel (you never know!).
- 2. Operating and expansion costs:** The key comfort for investors is undoubtedly Cenovus' costs of producing oil. Currently, it costs the company \$14.67 to produce a barrel of oil. Additionally, for new expansions, it would cost Cenovus \$45 a barrel – that's still comfortably below current crude prices, which should come as a relief to investors.

## Playing the stock

No one knows where crude prices are headed – some analysts predict the bottom being around higher \$50s, while others expect even \$40. For those investors wondering what to do about Cenovus, I suggest waiting for the new year to make any drastic moves, although given that the company's shares

are hovering around its 52-week lows, that's already an attractive valuation for the company.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
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