Cenovus Energy Inc. Takes Action to Keep its 5.4% Dividend Safe

Description

Last week **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) announced that it was cutting its 2015 capital budget by 15%. The move was made to create near-term cash flow so that the company could remain flexible during these turbulent market conditions. That cash will prove vital to sustain the company's generous 5.4% dividend, which the company is committed to keeping in place during these troubling times.

What's being cut to keep the dividend?

Cenovus Energy is restricting its capital investments to spending on projects that either are already producing, or those that will start producing very soon. For example, the company is actually increasing its capital spend at Christina Lake, which is part of a joint venture with **ConocoPhillips** (NYSE: COP) by 4%. That spending is part of the optimization of phases C, D, and E as well as costs associated with bringing phase F online, which is expected to deliver first oil next year.

Cenovus Energy is moving forward with these investments because they will either lower production costs at Christian Lake, or bring more inexpensive oil online. However, the company is spreading out investments for later phases G and H to preserve cash while the oil markets are unsettled.

Meanwhile, the company is making deeper cuts to longer term projects. Development of the company's Narrows Lake project, also jointly owned with ConocoPhillips, will be slowed down as spending will be cut by 64%. The project, which is expected to deliver first oil from phase A in 2017, but it might not hit that target. Further, the company is also cutting spending at its wholly owned emerging oil sands assets at Telephone Lake and Grand Rapids. Spending on these projects will be reduced by 46% while spending at conventional oil assets will be cut by 49%.

What's the outcome?

In making these cuts Cenovus Energy believes that it will be able to cover its 2015 cash needs through a combination of cash flow and cash on its balance sheet. The company currently anticipates its cash flow will be $2.6-$2.9 billion next year, which is a 29% drop from 2014. With its 2015 spending plan dropping 15% to $2.5-$2.7 billion, the company can avoid borrowing money to pay for investments that aren’t likely to create a lot of value in today’s market environment.

The other important outcome of the company’s spending plan is that it will allow Cenovus to keep its dividend at its current level throughout 2015. While the dividend is likely to be funded by cash on the balance sheet, it’s a commitment level that the company is comfortable with for the full year as it can fund everything internally even if the U.S. oil benchmark stays below $65 for the full year. Meanwhile, if market conditions improve, the company will be in a better position to grow its dividend.

So far 2015 is shaping up to be a very challenging year for the energy industry. The unstoppable fall in oil prices is forcing oil companies to take actions, including cutting spending. However, the spending cuts are yet resulting in many dividend cuts as most oil companies continue to make dividends a priority in order to keep investors from jumping ship.

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Date
2025/07/17
Date Created
2014/12/15
Author
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