3 Big Reasons to Own Cenovus Energy Inc. in 2015

Description

Cenovus Energy Inc. (TSX: CVE)(NYSE: CVE) is up 20% in the past two weeks. The company has weathered the storm in the oil market reasonably well and new investors are wondering if it is safe to buy the stock.

Here are three reasons I think long-term investors should consider adding Cenovus to their portfolios in 2015.

Production growth

Cenovus recently announced plans to reduce 2015 capital spending by 15% as oil prices remain below $60 per barrel. However, the company continues to ramp up production at its main oil sands sites operated in a 50% joint venture with **Conoco Phillips** (NYSE: COP).

The Christina Lake project produced more than 68,000 barrels per day in the third quarter of 2014. This was a 30% increase over the same period in 2013. The company continues to push ahead with expansion at the site and production should grow again in 2015. Long-term investors should have their eye on the 300,000 barrels per day the facility is designed to hit at full capacity.

Foster Creek is the other major oil sands operation. It produced 15% more oil in Q3 compared to the third quarter last year, hitting production of 57,000 barrels per day. The company recently completed its Phase F expansion at the site and this will add to production levels in Q4. Foster Creek's Phase G expansion should be completed and online in 2015.

Foster Creek has a total gross production capacity of 295,000 barrels per day that could be reached by 2019.

Dividend safety

Cenovus recently reassured investors that its dividend is safe and that all capital programs for 2015 will be funded through operating cash flow. The company is assuming an average oil price for 2015 of $65 per barrel, which is more conservative than many of its peers.

The company pays a dividend of $1.06 per share that yields about 4.5%. Cenovus has increased its dividend in each of the past three years. Production growth at both Christina Lake and Foster Creek will help offset lower oil prices and should provide enough cash flow to sustain the payout. Another increase in 2015 is unlikely if crude prices remain below $60 per barrel, but a rebound in the oil market could set the stage for a distribution hike by the end of next year.

Should you buy?

Cenovus had an operating cost of just $10.40 per barrel at Christina Lake and $14.79 per barrel at Foster Creek in the third quarter, making it one of the most efficient operators in Canada. Oil prices will probably drift higher throughout 2015.

Saudi Arabia's oil minister recently said he expects the price of crude to increase, and a former advisor to the country indicated the Saudi budget for 2015 is likely based on an average oil price of $80 per barrel.

For long-term investors, Cenovus is probably a good bet at current prices, and the dividend should be safe as long as oil prices stay at or above current levels. If you are looking for another reliable dividend growth stock to add to the portfolio, check out the following free report on our top pick for next year.

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