Is the Dividend Still Safe at Cenovus Energy Inc.?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) just reported weaker-than-expected earnings for the fourth quarter of 2014, posting a net loss of $472 million.

In a bid to reduce expenses, Cenovus said it will cut 15% of its workforce, cancel all unnecessary travel, scale back conferences, and implement a salary freeze for all remaining employees.

The company is even telling staff avoid printing documents in colour.

Swinging the axe

Cenovus first announced capital cuts in December when it slashed 2015 spending by 15% and launched a cost-saving program designed to take $400 million to $500 million per year out of expenses by 2018.

The new 2015 capital budget was expected to be $2.5 billion to $2.7 billion. Cash flow projections at the time were based on an expected average WTI oil price of $74 per barrel or better.

Less than two months later, Cenovus axed another $700 million from the 2015 budget and put two large expansion projects on hold. The latest budget puts capital spending at $1.8 billion to $2 billion.

Cenovus is pulling back on the build out of its Christina Lake and Foster Creek oil sands facilities and is effectively shelving its conventional oil drilling activity in Saskatchewan and Alberta.

The company now foresees 2015 cash flow of $1.3 billion to $1.5 billion based on an average WTI oil price of $50.50 per barrel. This is significantly lower than the 2014 full-year cash flow of $3.5 billion.

Is the dividend safe?

Cenovus has traditionally covered its capital program using cash flow from operations. This is unlikely to happen this year unless oil prices rebound more than expected.

The company finished 2014 with $900 million in cash and cash equivalents so its balance sheet is still in good shape and Cenovus has ample funds to cover the dividend. The company paid out roughly $800 million in dividends in 2014.

Cenovus is now offering shareholders a 3% discount to enroll in the dividend reinvestment plan (DRIP), which should help reduce its payout pressure. If 25% of shareholders take the offer, the company could retain $200 million.

A spinoff of the company's royalty land business would also help generate funds, but Cenovus said that option is off the table until oil prices recover.

Given the latest cost-cutting measures, reduced WTI expectation, and the DRIP incentive, I think the dividend is probably safe. The current payout yield is about 4.6%.

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1. Dividend Stocks
2. Energy Stocks
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aswalker