

3 Things Cenovus Energy Inc. Wants Investors to Know

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) recently wrapped up its financial reporting for 2014 by issuing its fourth-quarter and full-year report. The report was not great, but to be expected considering the dramatic drop in the price of oil during the quarter. Keeping that drop in mind, the company wanted to make three things clear to its investors on its most recent coherence call.

1. 2014: A tale of two years

“2014 is best described by two distinct periods. The first nine months of the year showed financial results on track for better than 2013 and set us on a path to exceed our initial corporate cash flow guidance. In the last three months of 2014, there was a significant shift in the commodity price environment. Crude oil prices fell between 40% and 50% from September 30 through the end of the year, making the fourth quarter financially challenging.” – CFO Ivor Ruste

For Cenovus Energy, 2014 was the best of times and then it was the worst of times depending on what part of the year we focus on. The CFO noted this as he began his remarks on the company's financial situation. He pointed out that through the first nine months of the year the company was on pace to exceed its guidance for the full year. Then the price of oil fell more than 50% during the fourth quarter, which pulled the whole year down.

Still, it's important that investors know that the company really was firing on all cylinders until the price of oil fell off a cliff. This tells us that the company entered the downturn in a very strong position.

Ramping down

Because of the downturn in the price of oil Cenovus Energy is taking action to ensure that its financial position doesn't weaken. This was clear from comments made by COO John Brannan, who noted three specific areas where the company was cutting back. He said that the company was suspending construction on Christian Lake Phase G as well as Christina Lake Phase H to preserve cash. That's no small feat as the company had to get its joint venture partner, **ConocoPhillips** to agree to this plan as slowing down these projects would impact ConocoPhillips' future growth plans as well.

In addition to suspending those two projects the company also significantly reduced spending on its conventional oil and gas operations. Brannan noted that the company plans to restart its drilling program when prices rebound, but that its production from these plays will actually decline next year as there's no need to grow this production, or even keep it flat, given where the price of oil is right now.

2. Top priority

“My absolute top priority this year is to maintain Cenovus's financial resilience without

compromising our future.” – CEO Brian Ferguson

One of the big reasons why Cenovus Energy is ramping down its spending is to ensure that it stays financially sound. CEO Brian Ferguson called this his top priority this year as the company didn’t want to dig itself in a hole by getting too deeply in debt by investing in growth that’s not necessary at the moment.

Right now the company is in a “strong financial position” according to CFO Ivor Ruste. He noted that its debt to capitalization was 35%, which was right in the midpoint of its long-term target range. Meanwhile, debt to adjusted EBITDA stood at 1.4 times turning the fourth quarter, which is also in the mid-point of its long-term range. The company has made it a priority to maintain this strong position, even if it means slowing down its growth in the future.

Investor takeaway

If there’s one key takeaway from Cenovus Energy’s conference call it’s that the company’s management team has things under control. The company was in a very strong position when it entered the downturn in oil prices and it’s making the necessary moves to ensure it exits the same way.

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