

Cenovus Energy Inc. Is Diluting its Shares; What Does This Mean for Shareholders?

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is looking at equity markets to raise \$1.5 billion as it continues to try and protect its balance sheet and dividend. Over the past month or two, Cenovus announced several other measures to weather a slump in oil prices, including cutting 800 jobs. The job-cut is the first since Cenovus spun off from **Encana Corporation** (TSX:ECA)(NYSE:ECA) in 2009. Other “survival” measures include slashing its capital expenditure budget for this year, shelving expansion plans, and delaying projects.

Now, the company is looking to sell 67.5 million shares at \$22.25 each as part of a “bought deal”. A bought deal is when an investment bank commits to buying the entire share offering from the company, taking on any financial risk at a lower price.

In Cenovus’ case, the broker took on the shares at \$22.25, roughly a buck lower than Cenovus’ closing price on Tuesday. According to Bloomberg, this deal will be the third-largest transaction of its kind for Canadian energy companies over the last 15 years.

The company said the proceeds from the sale will “provide Cenovus with a stronger balance sheet and financial flexibility to pursue its planned capital program.”

What this means for investors

The most important aspect of a company for many investors is the dividend. Last week, CEO Brian Ferguson said he would reduce spending before he would cut the dividend. And by the looks of it, it seems like he is doing everything in his power to stick to this promise.

As of now, the company has only tweaked its \$800 million dividend policy. Shareholders can now take a 3% discount if they enroll in the company’s Dividend Reinvestment Plan or they can continue to stick to receiving dividend payments in cash. This alteration reduces the pressure on Cenovus to pay out all dividends in cash.

Yes, Cenovus has diluted its share value, but I don’t expect this move to impact the long-term view of the stock – it certainly doesn’t change my long-term view. Cenovus is a solid company to own and one of the best energy producers in the country.

CATEGORY

1. Energy Stocks
2. Investing

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