Cenovus Energy Inc. Stands Behind its 4.75% Dividend

Description

A lot of dividends within the energy sector have been cut as a result of the big drop in the price of oil. One dividend that's not going anywhere is **Cenovus Energy Inc.'s** (TSX:CVE)(NYSE:CVE) 4.75% payout. The company's management team made that abundantly clear on its recent fourth-quarter conference call.

Cutting everything but the dividend

CEO Brian Ferguson said that his "absolute top priority" was to maintain Cenovus's "financial resilience" without risking the company's future. With that priority in mind, the company took actions to respond to the deep drop in the price of oil by cutting every expense that made sense. This meant its workforce was 15% leaner, and its capital-spending plan was a lot lighter than last year's plan.

In doing so, Cenovus Energy helped keep its financial position strong. By cutting spending, the company was ensuring that it could continue to maintain debt metrics that were well within its long-term target ranges. However, one thing the company made clear was that it would not cut was its dividend.

The discipline of having a dividend

During the conference call, Ferguson elaborated on the company's dividend plan by saying that its plan has always been to "pay out on an after-tax basis, 20% to 25% of after-tax cash flow in terms of our dividends." However, he also pointed out that the 20%-25% rate was across the cycle and not just year-to-year. Ferguson explained:

> "Having been through a number of cycles so far in my career — and I expect I will see at least one more in my career as we go forward here — to me, what's really important is that we're managing our company, our balance sheets, our commitment to shareholders on a longer-term basis."

As part of that long-term outlook, he sees maintaining the dividend as an "important form of capital discipline." This means it keeps the company from spending money on growth. Instead, by being disciplined, the company "would reduce capital further" before it would ever reassess the dividend. That's because, in all likelihood, the additional capital it would be spending likely wouldn't earn a high enough return to be justified, so it would be better off cutting that spending than simply axing the dividend.

All that being said, Ferguson knows that the current downturn might not be quick, so he would never rule out a dividend cut. However, he is "committed to doing everything that [he] can to make sure that our dividend is sustainable."

Investor takeaway

Oil prices are known to be rather cyclical, so today's lows will one day be in the history books. This is why Cenovus is focused on the entire cycle of highs and lows, as it wants its dividend to be sustainable throughout the cycle. One of the ways Cenovus did that was by setting a conservative dividend level that wasn't too generous during the top of the cycle. This way, the company can maintain the payout when the cycle inevitably turns, as it has in recent months.

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mdilallo