



Dividend Investors: 3 Reasons to Buy Cenovus Energy Inc. Today

Description

Cenovus Energy Inc. ([TSX:CVE](#))([NYSE:CVE](#)) is off more than 30% in the past six months and oil prices continue to drill down to new multi-year lows. Most oil stocks look like falling knives right now, but there are a few names in the sector that could be poised for a solid rebound.

Here are the reasons why I think dividend investors should consider putting Cenovus on their watch lists.

1. Balance sheet stability

Cenovus Energy Inc. has slashed spending and raised capital to shore up its balance sheet amid the ongoing rout in the oil market.

The company recently closed a bought deal to issue \$1.5 billion in new stock. The funds will be used to help fill the gap between expected cash flow and the company's roughly \$2 billion capital-spending plan. Cenovus also has \$3 billion available in an undrawn credit facility.

2. Better-than-expected cash flow

Analysts have been concerned that the cash flow challenges might force the company to cut or eliminate its dividend. Cenovus continues to pay its quarterly distribution of \$0.27 that currently yields more than 5%.

TD Securities analyst Menno Hulshof has crunched the numbers and believes the refining division could deliver better-than-expected results this year.

Cenovus is an integrated energy company with both oil sands production assets and a large refining division. Margins in the company's refining business are affected by the price differential between crude oil and the petroleum products that are extracted from it. This price difference is referred to as the "crack spread."

Cenovus provided refining cash flow guidance for 2015 of \$250 million based on an expected crack

spread of US\$11.75 per barrel. The differential has widened since the start of the year and Hulshof suggests that Cenovus could see better cash flow as a result.

This would alleviate some of the funding pressures and help protect the dividend.

3. Great assets

Cenovus operates two world-class oil sands facilities in a 50% joint partnership with **ConocoPhillips**. The projects, named Christina Lake and Foster Creek, have the potential to deliver substantial cash flow for decades.

Christina Lake increased output by 40% in 2014 to reach average production of about 69,000 barrels per day (bbls/d) net to Cenovus. Foster Creek provided Cenovus with more than 59,000 bbls/d, an 11% increase over 2013.

Each project has a target gross output of about 300,000 bbls/d.

Cenovus has also considered spinning off its royalty land assets to boost the capital position, but the company will probably wait until crude markets stabilize.

Oil prices are still volatile. Production continues to outpace demand and North American storage facilities are filling up fast. If you believe prices are headed higher by the end of the year, Cenovus might be a good way to pick up some nice dividends while you wait for the rebound. There are still risks, but the company is in better shape now than it was two months ago.

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