



## Cenovus Energy Inc.: Should Income Investors Buy, Sell, or Hold?

### Description

**Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)) has rallied nearly 15% this month and dividend investors are wondering if this is the time to pick up the stock.

Let's take a look at the current situation to see if Cenovus deserves a spot in your portfolio.

### Balance sheet concerns

The oil rout has knocked the spot out of energy-patch balance sheets, and many of the big names have been forced to issue stock to avoid a cash crunch.

Cenovus is one of those companies. The firm raised \$1.5 billion earlier this year in a bought deal equity offering and is using the money to fill the gap between the company's expected cash flow and the reduced capital plan.

The new funds combined with an undrawn \$3 billion credit facility should ensure that Cenovus is capable of covering the dividend and its \$2 billion capital program in 2015.

### Cash flow

It might turn out that Cenovus didn't need to raise all that cash. The company has implemented strict expense cuts across the business and is offering investors an incentive to take dividend payments in the form of new stocks.

The dividend reinvestment plan (DRIP) now provides investors with a 3% discount if they take new shares instead of cash. The company paid out roughly \$800 million in dividends in 2014. If the DRIP participation hits 25%, that would save \$200 million.

Another surprise boost to cash flow could come from the refining operations. Cenovus is primarily known as an oil sands producer, but the company also owns significant refining assets.

Refining margins depend on the price difference or "crack spread" between the crude oil feedstock that

goes into the plant and the gasoline and distillates that are produced from it.

In its 2015 guidance, Cenovus said it expects the Chicago 3:2:1 crack spread to average US\$11.75 per barrel, and every \$1 increase would improve cash flow by \$90 million.

In the first quarter of this year, the crack spread widened significantly, meaning Cenovus should see better-than-expected refining margins. The \$250 million in cash flow it initially expected this year from refining could easily double if the crack spread remains higher than expected through 2015.

## Assets

Cenovus owns fantastic oil sands assets in a 50% joint partnership with **ConocoPhillips**. These properties are capable of generating significant free cash flow for decades.

In 2014 the company increased output by 40% at its Christina Lake project. The Foster Creek project saw year-over-year gains of 11%. Both facilities are still in the infancy of their existence and have combined output targets of roughly 600,000 barrels per day once they are fully developed.

## Should you buy?

Oil prices look like they are starting to stabilize and Cenovus has adequate cash available to meet its obligations. At this point, the dividend should be safe and a continued rebound in crude prices could send the stock much higher. If oil reverses course again, Cenovus will drop, but the balance sheet should be strong enough now to limit the slide.

If you already own the stock, you should probably hold it. For new investors, the risks are lower now than they were a few months ago.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

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