# Cenovus Energy Inc.: Is it Finally Time to Buy?

## Description

**Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) has fallen more than 40% in the past 12 months, and the stock is now trading near its lowest point in the past five years.



That doesn't sound like an appealing situation for investors, but the company is working hard to position itself for an extended period of lower oil prices, and the sell-off might be nearing its end.

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

**Lower costs and better production**

Cenovus reported a Q1 operating loss of $88 million, which wasn't too bad considering how low oil prices were for the first three months of this year. Since then, the market has improved and WTI prices spent most of Q2 near $60 per barrel.

Cenovus is doing a good job of reducing expenses. The company cut its workforce by 15% and has lowered the capital budget by $700 million. If oil prices remain at current levels, operating cash flow should cover the current $2 billion capital program.

Cenovus also managed to increase Q1 year-over-year production by 11%.

**Dividend concerns**

Cenovus had Q1 cash flow of $495 million. That means it had to use cash reserves to cover a $34 million shortfall on the capital projects, plus the $138 million it paid out in dividends.

Management has decided to maintain the distribution. In February the company raised $1.4 billion through an equity issue and finished Q1 with $1.8 billion in cash and cash equivalents.

Cenovus also just agreed to sell its royalty properties to the Ontario Teachers' Pension Plan for $3.3 billion.

This means the company is now sitting on a mountain of cash that it can use to cover the dividend, manage its capital program, and even take advantage of strategic acquisitions that might come along, as it did recently when it paid $75 million for a rail-loading terminal.

**Risks?**

The second quarter brought higher oil prices, but it also delivered a few unexpected surprises.

Cenovus shut down production for several days due to wildfires that were burning near its facilities. This will impact production and cash flow results when the company reports its Q2 numbers.

The bigger shock was the election of the NDP government, which has forced many of Alberta's energy companies to go back to the drawing board on their capital plans. Tax rates are increasing and the province's policy on royalty fees is being reviewed. Uncertainty around the final outcome is keeping investors away, but oil production is critical to Alberta's economy and the government will have to work out a plan that allows energy companies to be competitive in the global market.

Changes are certainly occurring, but the market reaction might be a bit overdone.

**Should you buy Cenovus?**

The dividend currently yields about 5.3% and the distribution looks safe as long as oil prices avoid another steep slide.



The company has fantastic reserves and is a low-cost producer in the oil sands region. It also has a large refining division that provides a second source of revenue. If energy prices are going to slowly drift higher, then Cenovus is probably a good long-term bet.

If you think oil is going to plummet in the next year or two, it would be best to stay on the sidelines or look for other opportunities.

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1. Energy Stocks
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aswalker