Cenovus Energy Inc. Reduced its Dividend: What Should You Do?

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE), one of largest integrated oil and gas companies in Canada, announced second-quarter earnings results on the morning of July 30, and its stock has responded by rising over 2% in the trading sessions since. The company's stock still sits more than 45% below its 52-week high of $34.70 reached back in September 2014, so let's take a closer look at the results to determine if we should consider initiating long-term positions today.

Low commodity prices lead to a disappointing performance

Here's a summary of Cenovus's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Diluted Earnings per share	$0.15	$0.81
Revenue, Net of Royalties	$3.73 billion	$5.42 billion

Source: Cenovus Energy Inc.

In the second quarter of fiscal 2015, Cenovus's net earnings decreased 79.5% to $126 million, its diluted earnings per share decreased 81.5% to $0.15, and its revenue decreased 31.3% to $3.73 billion compared with the same quarter a year ago.

The company noted that these very weak results could be attributed to "the low commodity price environment," which led to its average realized selling price of crude oil, including hedging, decreasing 34.6% to $51.23 per barrel and its average realized selling price of natural gas, including hedging, decreasing 33.8% to $3.21 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Total oil production decreased 0.9% to 199,954 barrels per day

2. Oil sands production increased 4.7% to 130,734 barrels per day
3. Conventional oil production decreased 9.9% to 69,220 barrels per day
4. Natural gas production decreased 11.2% to 450 million cubic feet per day
5. Revenue decreased 30% to $2.44 billion in its refining & marketing segment
6. Revenue decreased 32.7% to $875 million in its oil sands segment
7. Revenue decreased 43.7% to $482 million in its conventional oil segment
8. Cash flow decreased 59.9% to $477 million
9. Operating earnings decreased 68.1% to $151 million
10. Capital investments decreased 48% to $357 million

Cenovus also announced a 39.9% reduction to its quarterly dividend to $0.16 per share because it expects “a prolonged period of low oil prices,” and the next payment will come on September 30 to shareholders of record at the close of business on September 15.

What should you do with Cenovus Energy today?

It was a very weak quarter for Cenovus, and its dividend reduction made the earnings release even worse, so I do not think its stock has responded correctly by moving higher. With this being said, I think the stock will head lower from here for two reasons in particular.

First, oil and natural gas prices remain under pressure, which will lead to further headwinds in the second half for Cenovus.

Second, Cenovus’s stock still trades at very high valuations, including 476.5 times fiscal 2015’s estimated earnings per share of $0.04 and 112.1 times fiscal 2016’s estimated earnings per share of $0.17, both of which are very expensive compared with its five-year average price-to-earnings multiple of 27.9 and the industry average multiple of 25.8.

With all of the information provided above in mind, I think Foolish investors should avoid Cenovus Energy for the time being, and only revisit it when commodity prices recover and it gets back on the path of growth.

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