3 Huge Surprises From Cenovus Energy Inc.'s Earnings Report

Description

Cenovus Energy Inc.'s (TSX:CVE)(NYSE:CVE) recent second-quarter report was absolutely full of surprises. The company, which has been struggling under the weight of weak oil prices, had several interesting announcements that have both short and long-term ramifications for investors. Here are the three biggest surprises the company unveiled to investors.

Surprise: we crushed estimates

Despite weak oil prices in the quarter, Cenovus's earnings came in much better than expected. In fact, the company crushed the consensus estimate of analysts as it earned $0.18 per share, twice what analysts were expecting. Driving this beat was solid production growth, which is up 5% year over year while costs are down 30% over the past year. Speaking of cost reductions, the company is on pace to achieve $280 million in reductions, which is 40% greater than its initial target.

Surprise: we're cutting our dividend

Even with those costs savings Cenovus's cash flow was very weak as it dropped 60% year over year. Because of this and the company's view that oil will only average $65 per barrel through 2017, it's reducing its dividend by 40%. While it's not the first oil company to take a big cut out of its dividend, that doesn't mean the reduction doesn't sting for investors. However, the company felt the move was necessary as it will enable the company to maintain "financial resilience during a prolonged period of lower oil prices," according to CEO Brian Ferguson.

Surprise: we're thinking about developing Narrows Lake

While Cenovus's view on oil is pretty bearish, that's not stopping the company from pursuing future growth. In fact, the company is considering investing in oil sands projects that it had previously deferred. The company is now planning to spend $25-30 million through the end of this year to prepare for the possibility of resuming the construction of projects that are on hold.

Its first priority would be to restart construction at its deferred Christian Lake phase G and Foster Creek phase F expansion projects, which are 50% co-owned by U.S. oil giant **ConocoPhillips**. However, what's even more interesting is that the company is also considering the resumption of work on its Narrows Lake oil sands project, which is also 50% owned by ConocoPhillips. The reason that's surprising is because Narrows Lake is not yet producing, so there's a bit more risk involved in developing the project. That said, the company sees the rapid reduction in capex costs, potentially making this the best time to invest in the project, so it can lock in top-tier returns.

Investor takeaway

Cenovus was full of surprises this quarter. Thanks to a significant reduction in costs, the company surprisingly crushed analysts' estimates during the second quarter. Despite this, it unexpectedly slashed its dividend by 40% because the company doesn't see any near-term potential for a rebound in the oil price.

That outlook aside, Cenovus is looking ahead to better days, which is why it's looking to resume stalled growth projects, including Narrows Lake, even though it is much earlier in its development than the company's other two projects.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/08/05
Date Created
2015/08/07
Author
mdilallo