4 Reasons to Consider Cenovus Energy Inc.

Description

Shares of **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) are up more than 20% in the past month, and investors with an eye on an oil rebound are wondering if this is a good time to pick up the stock.

Here are some of the reasons Cenovus might be a good pick.

1. Lower costs and higher production

Cenovus is working hard to reduce its cost structure as it strives to maintain or increase output.

During the second quarter of this year the company managed to boost output by 5% over the same period last year. The number would have been even higher if the company had not been forced to shut down production for 11 days due a forest fire near its oil sands facilities.

The more impressive part of the Q2 story was the 30% drop in operating costs compared with the same period in 2014. Cenovus is on track to hit $280 million in cost reductions in 2015, roughly 40% better than the original estimate.

Management said the cost adjustments will allow Cenovus to internally fund the current dividend and capital expenditures at an average WTI price of $50 per barrel through 2017. Oil prices are still below that level right now, so investors shouldn't count on the dividend payments unless the market improves.

2. Solid balance sheet

Energy companies are scrambling to shore up their balance sheets as lower cash flow threatens to put pressure on the ability to cover costs and pay debt obligations.

Selling assets is one way to raise funds.

In the second quarter, Cenovus managed to get $3.3 billion for its royalty and free land holdings. The company did well considering the market conditions and said it would record an after-tax gain of $1.9 billion on the deal.

Cenovus is now flush with cash and should be well positioned to survive an extended oil rout.

3. Strategic investments

Cenovus is also investing for the future. The company recently took advantage of the weak market to secure a crude-by-rail trans-loading facility for $75 million. This is important because oil sands producers continue to struggle with pipeline bottlenecks in western Canada. As a result, Canadian oil trades at a discount to WTI and Brent because it can't get to U.S. refineries or international markets.

The purchase of the rail loading facility gives Cenovus direct ownership of a key asset to ensure it can move more oil to lucrative markets.

Cenovus has also received a licence to export oil from the U.S., and this should help improve margins on some of its production.

4. Integrated business model

Cenovus is primarily known as an oil sands producer, but the company also operates refineries. This segment of the business provides a nice revenue hedge when low prices hit the upstream operations. Refining profits are tough to forecast, but the midstream operations can deliver solid margins when the price differential expands between the input cost of the feedstock oil and the finished products.

Should you buy?

Cenovus has bounced nicely off the August lows, so the easy money has already been made, but investors with a long-term bullish view on oil should do well holding the stock.

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