Cenovus Energy Inc.: Will it Survive the Oil Rout?

Description

Oil prices continue to slide, and investors are wondering if the beleaguered oil sands players are going to make it.

Let's take a look at **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) to see how the company is managing the downturn.

Cash flows

Cash is king right now in the energy patch. Those that have it are sitting back and rubbing their hands together, and those that don't are struggling to survive.

Cenovus reported Q3 2015 cash flow from operations of $444 million. That's less than half the amount the company brought in during the same period last year, but it was enough to cover the $400 million in capital expenditures for the quarter.

It wasn't, however, enough to cover the already reduced dividend, which cost the company $133 million in Q3.

This isn't the kind of situation investors want to see, but Cenovus has more than enough cash to cover the $89 million shortfall.

Balance sheet

Cenovus ended the third quarter with $4.4 billion in cash and cash equivalents. Long-term debt was $6.3 billion, so the balance sheet is in pretty decent shape compared with many of the company's peers.

The large cash position is the result of a $1.5 billion equity sale earlier in the year as well as the recent disposition of the royalty and free-land holdings for $3.3 billion.

Investing for growth

Cenovus has cut back on its conventional oil development, but its core Foster Creek and Christina Lake oil sands operations are rolling along nicely, and the company is investing in other opportunities.

The purchase of a crude-by-rail trans-loading facility is one example. Cenovus has to get its oil to the highest bidders, but the ongoing pipeline bottleneck in western Canada makes that difficult. Cenovus is being proactive and bought the valuable rail-loading asset, which should enable Cenovus to move more of its oil by train.

Production

Conventional oil output fell 14% compared with Q3 2014 as capital cutbacks started to take their toll. On the oil sands side, production rose by 14% as investments in the flagship facilities continue to produce strong results.

Year-over-year operating costs at Christina Lake and Foster Creek also dropped by 28% in the third quarter, which helped soften the blow of lower prices.

Dividend

There is sufficient cash on the balance sheet to pay the dividend, but Cenovus isn't generating enough cash flow to cover the distribution, so investors shouldn't be surprised if the payout gets suspended.

Should you buy?

Cenovus has an advantage over its peers in that it owns a refining division, which helps diversify revenues. With a large cash position and significantly reduced capital spending, Cenovus is well positioned to ride out the rout.

More pain could certainly be on the way, especially if oil is headed to $30, but the company's long-term reserves and low production costs make the name attractive when better days return. If you believe oil prices are near a bottom, Cenovus is worth keeping on your radar.

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2. Investing

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