Cenovus Energy Inc.: Why Doesn't This Energy Giant Get More Love?

Description

As we enter the third year of crude oil's bear market, many investors have abandoned the speculative energy plays for the more mature operators.

There are several reasons for this. Many of the smaller producers need oil to recover significantly in 2016 in order to remain solvent. Most investors don't think this will happen as the market seems to think crude will stay low for a very long time. The large producers also have solid balance sheets, attractive downstream assets, and dividend yields that investors feel are reliable.

Besides, that's just good investing. The fact is we don't know when (or even if) crude will head back to recent highs. If investors pick the producers with the best chance of survival, they ensure they're following what Warren Buffett calls rule number one: don't lose money.

Often, I'll see investors go with two of Canada's largest producers as their top picks in the sector, **Suncor Energy** and **Imperial Oil**. This support has held up these giants' share price. Over the last year they're down 21% and 19%, respectively, while the overall energy sector has fallen nearly 40%.

These two companies also get a huge amount of investor attention. They're diverse energy giants with great management teams, solid balance sheets, and nice downstream assets. And both of these companies are well positioned to survive the downturn.

But there's one other oil giant that has many of the same attributes as Suncor and Imperial Oil. It has cash in the bank, assets that aren't just tied to the price of oil, and smart people in charge. It also pays what looks to be a sustainable dividend. Yet **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) doesn't get nearly as much attention as its peers.

Why is that? Let's take a closer look.

Solid positioning

The rest of the energy market has been busy over the last year making moves that will, hopefully, ensure long-term survival. Cenovus was no different.

Cenovus made two big moves to shore up its balance sheet. In June, it agreed to sell its royalty business to the Ontario Teachers' Pension Plan for approximately $3.3 billion. Shortly after that the company also made the move to reduce its quarterly dividend from $0.27 to $0.16 per share.

What these moves did was ensure that Cenovus would have the balance sheet strength to weather this storm. As of the end of the third quarter the company is sitting on $4.4 billion worth of cash compared to $6.3 billion worth of debt. The vast majority of its debt is long-term in nature as well with no maturities before 2019.

Cenovus has also assured investors it intends to keep paying its current dividend. The current yield is 3.9%, which is a nice consolation prize for investors while they're waiting for crude to recover.

Great assets

Cenovus might not have its own fleet of gas station customers, but it does have downstream operations. It's the co-owner of two U.S.-based refineries–assets which are expected to add approximately $350 million each year in free cash flow.

The majority of the company's production comes from its two oil sands mega-projects, Foster Creek and Christina Lake. Both of these projects offer low-cost operations, deep reserves, and the ability to expand when conditions improve. And when things get better, it has the potential to develop its next two projects in the region, Narrows Lake and Telephone Lake.

Between these four projects alone, the company boasts more than three billion barrels of proved and probable reserves. When crude recovers, all that oil in the ground is going to look very attractive.

With crude so low, it's easy to see why investors are avoiding the whole sector. But there will be huge winners once the price of oil recovers again. It's very easy to see Cenovus being one of those success stories.

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