Cenovus Energy Inc. Finally Finds a Good Use for its Cash Hoard

Description

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) built up a massive cash war chest during the oil market downturn to ensure it had ample liquidity to stay afloat. Recently, that cash position was up to $3.7 billion, which had analysts wondering what it would do with the money now that market conditions have improved; many called for the company to start returning the funds to investors via a higher dividend or share buyback.

However, the company resisted those calls, wanting to ensure it had the financial strength for whatever might lie ahead. That said, instead of another downturn, what materialized was the opportunity of a lifetime which the company could seize thanks to its healthy cash position.

Leveraging its cash position

That opportunity was the ability to take control of its oil sands assets by acquiring **ConocoPhillips's** (NYSE:COP) stake in the Foster Creek Christina Lake partnership in a $17.7 billion deal which also included several natural gas assets in western Canada. While that purchase price was well above its current cash position, its funds gave the company a good head start.

Overall, Cenovus will pay ConocoPhillips 208 million of its shares and $14.1 billion in cash, which, after backing out its cash position, left the company about $10 billion short. That said, it has already secured a $10.5 billion bridge loan to cover that amount.

Further, Cenovus has since launched a bought deal offering to raise $3 billion in equity as it starts taking steps to trim down that term loan, which it plans to pay back over the next two years via future senior debt offerings and asset sales. In fact, the company has already put several assets on the market, which could be worth up to $1.8 billion.

The transformational transaction

This transaction is game-changing for Cenovus. It immediately more than doubles the company's production and reserves. Further, the transaction is also immediately accretive on a per-share basis; the company is projecting an 18% increase in adjusted funds flow from operations next year when accounting for the increased share count and planned asset sales.

Further, the deal provides the company with a clear line of sight to expand its oil sands assets because it now has full control over the timing of expansion projects. As such, it expects to increase production from 365,000 barrels per day up to half a million barrels per day in five years. Further, the acquired gas assets also come with built-in growth with the company expecting production to increase 40% by 2019.

These production increases should fuel a significant increase in adjusted funds flow per share versus Cenovus's previous three-year business plan. Further, the company believes it can achieve that growth while living within cash flow at current commodity prices, which positions it to deliver a significant improvement in its credit metrics over the long term.

Investor takeaway

As Cenovus's cash position grew, so did the calls that it should start sending it back to investors. However, by resisting those calls, the company was able to pounce on an opportunity that significantly increased its scale, enabling it to take control of its future. It's a deal that could pay even bigger dividends for investors down the road, especially in an improving oil market.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/05

Date Created
2017/04/05
Author
mdilallo