Understanding the Takeaways from Cenovus Inc.'s Q1 Earnings Report

Description

The market has responded strongly to the latest earnings report from **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), sending the shares 12.4% higher since the company released its first-quarter results a little less than two weeks ago.

Which is more than a little interesting, as at first glance the reported figures didn't exactly come off that well.

The bad

Cenovus reported a GAAP loss of $0.61 in the first quarter, which was in fact much worse than witnessed a year ago when it reported a GAAP loss of just $0.05.

While the first quarter of 2017 saw generated cash flow from operations of $328 million and adjusted funds from operations of $0.39 per share, in the first quarter of this year, those figures were in a deficit position.

Cenovus lost $123 million in cash from its operations through the first three months of the year in 2018. Meanwhile, adjusted funds from operations, which is a measure used in part to evaluate a company's ability to fund its dividend payments, was a deficit of $0.03 per share.

That may have some questioning the ability of management and the company's board of directors to sustain the current $0.05 quarterly dividend, which is yielding shareholders 1.48% against a share price of $13.49 heading into Tuesday's trading.

The why

Despite the disappointing headline numbers, Cenovus President and CEO Alex Pourbaix said, "The challenges we experienced in the first quarter had a significant impact on our financial results, but the underlying performance of our assets remains very strong,"

"I want to stress that these financial challenges are temporary and don't reflect Cenovus's significant potential for funds flow and earnings growth."

Instead, the company pointed to losses on risk management positions, a historically wide differential between the price of U.S. and Canadian oil and planned maintenance at two refineries as responsible for much of the discrepancy in its year-over-year results.

The good

The good news was that the company's oil sands volumes nearly doubled compared with the same period a year earlier as a result of its May 2017 asset acquisition from **ConocoPhillips** (NYSE:COP).

In addition to increased production, Cenovus also reported making progress on its cost reduction targets, with its Deep Basin unit operating costs 18% lower than that of the third quarter of 2017, which was the company's first full quarter of ownership of the acquired assets.

The great?

Despite this, shares are already up 50% since mid-February and there's reason to believe that they may still have plenty of room left to run.

Cenovus stock still trades at just 0.86 times its book value, which is a conservative measure of a firm's worth, and last month the shares broke through their 200-day moving average, which has historically been a buying signal for long-term investors.

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Date
2025/08/15
Date Created
2018/05/10
Author
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