Why Cenovus Energy Inc. (TSX:CVE) Is 1 of My Top Energy Stock Picks

Description

Integrated oil giant **Cenovus Energy** (TSX:CVE)(NYSE:CVE) stock has continued its relentless decline and now trades a full 68% lower than it did four years ago. This is despite the fact that its business is markedly more efficient and profitable now compared to 2014.

To illustrate this point, if we look at the company's operating cash flow, we can see that it was 15% lower in 2017 compared to 2014. But looking further, we can see that this decline was a success given the fact that the company's realized oil and natural gas liquids prices were more than 40% lower in 2017 — a better, more profitable business which has lessened the blow from the commodity price swings.

All we can ask for as investors is that our companies manage the things they have control over exceptionally well, and this is what Cenovus has done.

Let's look a little deeper.

Strong cash flows

Over the years, Cenovus has worked hard at gaining efficiency and reducing costs.

In fact, in the last four or so years, in the oil sands the operating cost per barrel of oil has been reduced by more than 40% to well under $9. The oil sands' sustaining capital requirement per barrel of oil has been reduced by more than 50% to approximately $6.

This has been and will continue to drive cash flows.

Furthermore, the $17.7 billion acquisition of assets from **ConocoPhillips** in 2017 has served to dramatically increase the company's production profile, driving strong cash flow growth.

And as free cash flow ramps up in 2018 and 2019, I think we can expect to see increasing dividends, debt reduction, and more share buybacks.

Dividend

Cenovus is an energy stock that investors must also consider a dividend stock.

Although the current dividend yield on Cenovus stock is not that high, at 1.75%, the point is that I think investors can expect significant increases in the dividend over the next few years as free cash flow ramps up significantly.

Undervalued

Cenovus trades at less than five times cash flow and at less than book value, or 0.8 times book value, to be more precise.

So, as the next couple of years unfold, shareholders will increasingly be able to reap the rewards of the company's significantly higher production, lower costs, and investment in high-return growth projects such as Christina Lake Phase G.

This will come in the form of higher dividends, share buybacks, and a strengthened balance sheet.

For investors looking for an another energy stock that is also a dividend stock that's rich in cash flow, check out **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

The stock has a 3.18% dividend yield, and the company has continued to generate rapidly rising cash flows and an increasing dividend. In fact, the company recently announced a 22% dividend increase, signaling management's bullish long-term view.

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Author
karenjennifer