# Cenovus (TSX:CVE): Stock Is up 10%. Dividend Is up 200%

### Description

Energy stocks are having a great year. **Cenovus Energy** (TSX:CVE)(NYSE:CVE) is the latest oil and gas giant to pleasantly surprise investors. Yesterday, the company declared earnings that were better than expected. Revenue and net income are surging, while debt is declining. The company is in great shape.



Here's what investors need to know about the path ahead.

## Tailwinds

Cenovus shares doubled in 2021 and are showing no signs of slowing down in 2022. The stock is already up by more than 43.8% year to date. The stock is up 10% yesterday, as management declared a 200% increase in dividend payouts.

The integrated energy company has benefited greatly from oil prices rallying to eight-year highs. Energy prices also continue to tick higher amid supply concerns. The ongoing conflict in Europe and the demand recovery in the rest of the world are pushing commodity prices higher. Meanwhile, Cenvous's acquisition of Husky last year has put it in an excellent position to capitalize on this boom.

Cash from operations increased by more than 2,000% in 2021 to $5.9 billion, as Cenovus delivered a 6,000% increase in adjusted funds flow. In addition, the company bounced back to profitability with a $587 million in net income, up from a loss the previous year.

In its most recent quarter, the company declared net income that was seven times higher than the same period last year. With plenty of visibility ahead, the company tripled its dividend-payout ratio. Investors can now expect a 1.8% dividend yield on the current stock price. Cenovus is also expected to start repurchasing shares if it can successfully lower debt ratios in the months ahead.

The company will pay half of the excess cash flow to shareholders if net debt drops below $9 billion. The payout will be doubled if net debt drops below $4 billion.

## Outlook

The company is poised to deliver stellar financial results, as oil and gas prices have increased to levels not seen in years. Cenovus has confirmed it will no longer engage in oil hedging as oil prices continue to soar. Therefore, the company is well positioned to generate significant free funds from operations.

Despite the 200% bump, Cenovus's dividend yield is too low. However, management has announced details of a planned increase in shareholder returns. In addition, the stock is undervalued, trading at a forward price to free funds flow of 6.5.

Investors worried about a prolonged energy crisis should certainly have this stock on their radar.

## Bottom line

Earnings season is off to a great start for oil and gas companies. Canada's energy sector is plugging the gap in the global supply of crude. Cenovus isn't the only company to benefit, but it could be one of the most undervalued oil stocks on the market. If commodities remain elevated for the rest of the year, Cenovus could deliver larger rewards to shareholders.



Conservative investors seeking steady, passive income should have this stock on their watch list.

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**Date**
2025/08/25
**Date Created**
2022/04/28
**Author**
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