



Independent Stock Idea

February 15, 2010

rating: buy
s&p 500: 1076

Cenovus Energy Inc. (CVE) Quadruple Bitumen by 2017

<i>Symbol</i>	CVE	<i>Ebitda Next Twelve Months ending 12/31/10 (US\$mm)</i>	2,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	33
<i>Price (US\$/sh)</i>	23.94	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	2/12/10	<i>Adjusted Reserves/Production NTM</i>	10.2
<i>Shares (mm)</i>	751	<i>EV/Ebitda</i>	8.4
<i>Market Capitalization (US\$mm)</i>	18,000	<i>PV/Ebitda</i>	9.2
<i>Debt (US\$mm)</i>	6,900	<i>Undeveloped Reserves (%)</i>	57
<i>Enterprise Value (EV) (US\$mm)</i>	24,800	<i>Natural Gas and Oil Ebitda (US\$/mcfe)</i>	35.16
<i>Present Value (PV) (US\$mm)</i>	27,100	<i>Present Value Proven Reserves(US\$/boe)</i>	22.65
<i>Net Present Value (US\$/share)</i>	27	<i>Present Value Proven Reserves(US\$/mcfe)</i>	3.77
<i>Debt/Present Value</i>	0.25	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.38
<i>McDep Ratio - EV/PV</i>	0.92	<i>Price/Earnings Next Twelve Months</i>	17
<i>Dividend Yield (%/year)</i>	3.3	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$75 a barrel and natural gas, \$8 a million btu.			

Summary and Recommendation

Buy-recommended **Cenovus Energy (CVS)** offers unlevered appreciation potential of 9% to a McDep Ratio of 1.0 where stock price would equal Net Present Value (NPV) of US\$27 a share. Fourth quarter results, released on February 11, support our estimate for unlevered cash flow (Ebitda) in 2010 (see table [Next Twelve Months Operating and Financial Estimates](#)). Cenovus has been operating as an independent company since separation from buy-recommended **Encana (ECA)** on November 30, 2009. The new entity has the ambitious target to quadruple bitumen (heavy oil) production by 2017. Cash flow from natural gas and other oil reserves in Canada would finance the development. In a 50/50 joint venture with buy-recommended **ConocoPhillips (COP)**, the heavy oil would be refined in the U.S. into gasoline, diesel and other final products. Reserves to support perhaps half of bitumen growth to 2017 appear counted as proven (see table [Production and Reserves, 2009](#)). Reserve life and projected cash flow support NPV in an industry context (see table [Functional Cash Flow and Present Value](#)). Future conversion of undeveloped reserves to developed and unproven resources to proven reserves promise growth in NPV. We also believe oil price has long-term appreciation prospects. Meanwhile, current futures prices for delivery over the next six years settled at \$83 a barrel on February 12, above the 40-week average of \$82 (see chart [Six-Year Commodity Price Meter](#)).

Kurt H. Wulff, CFA



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Cenovus Energy Inc.									
Next Twelve Months Operating and Financial Estimates									
	<i>Pro Forma</i>								<i>Next Twelve Months</i>
	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	
	<i>6/30/09</i>	<i>9/30/09</i>	<i>12/31/09</i>	<i>2009</i>	<i>3/31/10</i>	<i>6/30/10</i>	<i>9/30/10</i>	<i>12/31/10</i>	<i>12/31/10</i>
Volume									
Natural Gas (bcf)	79	76	70	301	67	70	67	62	266
Natural Gas (mmcf)	864	826	765	824	746	765	732	678	730
Days	91	92	92	365	90	91	92	92	365
Oil (mmb)	9.7	10.4	10.5	40	9.7	9.8	9.9	9.9	39
Oil (mbd)	106	113	115	110	108	108	108	108	108
Total (mmb)	23	23	22	90	21	21	21	20	84
Total (mbd)	250	251	242	247	232	236	230	221	230
Price									
Henry Hub (US\$/mmbtu)	3.50	3.39	4.16	3.99	5.52	5.45	5.63	6.08	5.67
Differential	0.28	0.53	0.21	0.39	0.28	0.53	0.55	0.59	0.50
Company (\$/mcf)	3.22	2.86	3.95	3.60	5.24	4.92	5.09	5.49	5.18
WTI Cushing (US\$/bbl)	59.52	68.22	76.09	61.70	74.01	72.72	74.20	75.54	74.11
Differential	9.64	9.97	15.01	10.97	13.15	12.92	13.19	13.43	13.17
Company (\$/bbl)	49.88	58.25	61.08	50.73	60.85	59.79	61.01	62.11	60.94
Total (\$/bbl)	32.30	35.68	41.39	34.54	45.11	43.41	44.84	47.20	45.11
Revenue (\$mm)									
Natural Gas	253	217	278	1,083	352	343	342	342	1,380
Oil	483	606	644	2,032	591	588	606	617	2,402
Other	1,693	1,891	1,913	7,025	2,131	2,131	2,131	2,131	8,524
Total	2,429	2,714	2,835	10,140	3,074	3,061	3,080	3,091	12,306
Expense									
	2,000	2,052	2,175	8,085	2,339	2,335	2,341	2,344	9,359
Ebitda (\$mm)									
Natural Gas and Oil	275	576	649	1,745	660	651	664	672	2,647
Other	154	86	11	310	75	75	75	75	300
Total	429	662	660	2,055	735	726	739	747	2,947
Deprec., Deplet., & Amort	329	385	364	1,382	364	364	364	364	1,456
Hedging and other	(450)	(203)	(10)	(1,090)	(100)	(100)	(100)	(100)	(400)
Interest	49	58	75	218	75	75	75	75	300
Ebt									
	501	422	231	1,546	396	387	400	408	1,591
Income tax	58	39	81	239	139	136	140	143	557
Net Income (\$mm)									
	443	383	150	1,307	258	252	260	265	1,034
Per share (\$)	0.59	0.51	0.20	1.74	0.34	0.34	0.35	0.35	1.38
Shares (millions)									
	751	751	751	751	751	751	751	751	751
Ebitda margin	37%	70%	70%	56%	70%	70%	70%	70%	70%
Tax rate	12%	9%	35%	15%	35%	35%	35%	35%	35%



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Cenovus Energy Inc.									
Production and Reserves, 2009									
			<u>12/31/2009 Proven Reserves</u>			<i>Weighted</i>	<i>NTM</i>		
	<i>2009 Production</i>	<i>Developed</i>	<i>Undeveloped</i>	<i>Weighted</i>	<i>Life Index</i>	<i>Adjusted</i>			
	<i>(daily)</i>	<i>(annual)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(bcf or mmb)</i>	<i>(years)</i>	<i>R/P</i>		
							<i>(years)</i>		
North American Natural Gas	825	301	1,450	24	1,462	4.9	5.5		
Oil									
Bitumen	47	17	108	611	414	24.3			
Other Oil and NGL	63	23	170	62	201	8.7			
Total	110	40	278	673	615	15.4	15.6		
Total Oil Equivalent	247	90	520	677	858	9.5	10.2		

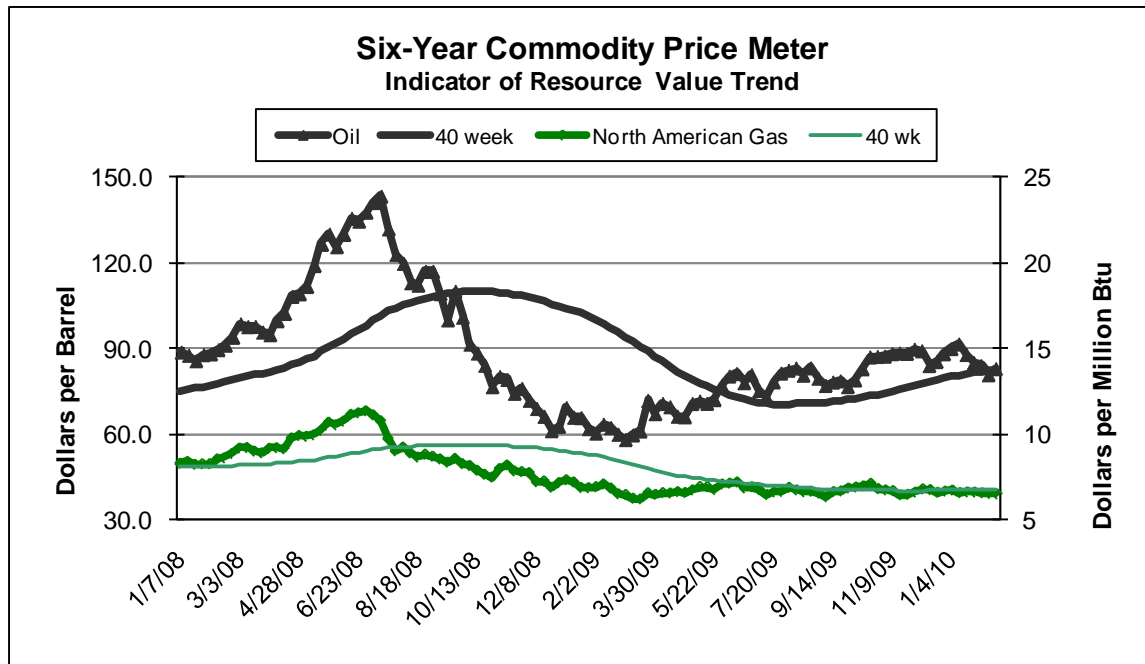
Weighted Life Index counts undeveloped reserves at half stated value and is computed on latest calendar year volume.
 NTM Adjusted R/P also counts undeveloped reserves at half and is computed on next twelve months production.
 Daily production in million cubic feet for natural gas and thousand barrels for oil.
 Annual production and reserves in billion cubic feet (bcf) for natural gas and million barrels (mmb) for oil.

Cenovus Energy Inc.					
Functional Cash Flow and Present Value					
	<i>NTM</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<u><i>Ebitda</i></u>	<u><i>R/P</i></u>	<u><i>Ebitda</i></u>	<u><i>Value</i></u>	
North American Natural Gas	950	5.5	6.5	6,200	23%
Oil	1,700	15.6	11.2	19,000	70%
Downstream	300		6.7	2,000	7%
	2,950	10.2	9.2	27,200	100%
Debt					6,900
Net Present Value (\$mm)					20,300
Shares					751
Net Present Value - Standard Estimate (US\$/sh)					27
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					27



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Disclaimer: This analysis was prepared by Kurt Wulff, Manager of McDep LLC as of January 1, 2008. Previously Mr. Wulff was doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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