

# [***DBRS Confirms Cenovus Energy Inc. at BBB with Negative Trends***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5SGG-HBG1-J9XT-P2GK-00000-00&context=1516831)

Plus Company Updates(PCU)

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**Body**

Toronto: DBRS has issued the following press release: DBRS Limited (DBRS) confirmed the Issuer Rating and Senior Unsecured Debt rating of Cenovus ***Energy*** Inc. (Cenovus or the Company) at BBB. At the same time, all trends remain Negative.

The rating confirmations take into account (1) the Company’s sizable production base following last year’s acquisition of Western Canadian assets from ConocoPhillips (COP; rated BBB (high) with a Stable trend by DBRS), (2) long life oil reserves, (3) improved capital and operating flexibility following the acquisition and (4) downstream integration that eases the impact of oil price volatility and changes in the heavy-light oil price differential. However, factors moderating the ratings include an increased sensitivity, post the acquisition, to the Western Canadian heavy-light oil price differential, highly concentrated Western Canadian production base geared to oil sands development and high financial leverage. The Negative trends reflect uncertainty regarding the Company’s ability to reduce financial leverage to a level that supports a BBB rating. After the acquisition, and when factoring in the post-acquisition legacy conventional oil and gas asset sales for cash proceeds of $3.7 billion, financial leverage still remains well outside the BBB range. To reduce leverage further, the Company has targeted additional asset sales including the announced planned disposition of the East Clearwater asset package in the Deep Basin region of Western Canada. Furthermore, at DBRS’s base case West Texas Intermediate (WTI) oil price of USD 55 per barrel (bbl) and Western Canada Select (WCS) price of USD 40/bbl, the Company should be able to generate free cash flow surpluses through the balance of this year and in 2019. Cenovus intends to apply excess cash flow toward reducing financial leverage. The Company has targeted decreasing net debt-to-EBITDA to less than 2.0 times (x). If within the next year, Cenovus employs asset sales proceeds and surplus free cash flow to significantly reduce financial leverage such that the Company’s key credit metrics improve to support an overall BBB rating, DBRS could change all trends to Stable. Otherwise, if financial leverage is not lowered to support a BBB rating, DBRS may have to take a negative rating action. After a financially challenging 2018 first quarter, Cenovus is currently benefiting from higher light and heavy oil prices in Western Canada. However, tempering this benefit is the fact that a high percentage of the Company’s liquids production is hedged well below current prices through the first half of 2018 (80% dropping to less than 40% in the second half) and contingency payments that are payable to COP through 2022 on the acquired Foster Creek Christina Lake Partnership interests. The contingency payments are triggered when the quarterly average WCS benchmark exceeds $52/bbl, and currently, WCS is over $61/bbl. DBRS assesses the Company liquidity as adequate. As at March 31, 2018, the Company had $4.5 billion of undrawn credit facilities and $0.4 billion of cash. Over the next four years, Cenovus has only USD 1.3 billion of debt (October 2019) that matures.

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