



Earn a 7% Yield From the Bakken Oil Boom

Description

What is going on in the Bakken? In May, the U.S. Geologic Survey doubled its reserve estimate, projecting that the formation contains 7.4 billion barrels of undiscovered, technically recoverable barrels of oil. Then last month, the North Dakota oil regulator predicted that output could double by 2017. No doubt the Bakken has been an investment bonanza!

Of course, finding a prudent way to invest in the Bakken boom is tricky. Debt-laden wildcatters are hardly a suitable investment for retirement portfolios. No, we want an established operator with a proven track record and a nice yield to boot. **Crescent Point Energy** (TSX: CPG) might just be what investors are looking for.

Rockin' the Bakken

In the past decade, Crescent Point has emerged from an obscure startup to one of the largest companies in the Canadian oil patch. Chief Executive Scott Saxburg started buying up oil leases back when natural gas was the commodity du jour. Through a series of smart acquisitions, Mr. Saxburg has built an amazing company with light-oil assets throughout Saskatchewan and North Dakota.

Since its inception, Crescent Point has posted impressive numbers. Over the past 10 years reserves and production have grown 18% and 7% annually, respectively. Cash flow has improved 19% annually over the past decade. More importantly, more than 90% of the company's production is oil — exactly what you want to see in an era of low natural gas prices.

But there's good reason to believe that Crescent Point's best days might still be ahead. Throughout the Bakken, operators have started waterflooding — pumping water into declining wells in order to boost production. This technique is nothing new; it's been used for more than 70 years. However, five years ago, it wasn't clear if the technique could be applied to tight oil formations.

Today the industry has the answer — an astounding yes. Operators have been successfully applying waterflooding techniques to boost production and their reserve estimates. **Raging River Exploration** (TSX: RRX), for example, expects waterflooding to increase its recoverable reserves in the Saskatchewan Viking formation by 1 million barrels per square mile and increase its well recovery

factor from 8% to 16%. That is great news because even a small change in the recovery factor applied to a large field can create an enormous value for shareholders.

At Crescent Point, waterflooding has provided an unexpected boost to production and reserves. In the Bakken, waterflooding has doubled the recovery factor of its wells to as high as 30%. Results have been so impressive that management raised full-year production guidance last quarter.

Big, juicy dividend

But what should really get investors interested in Crescent Point is the company's 7.2% dividend yield. That's nearly three times to going rate on a Government of Canada 10-year bond and welcome news for yield-starved investors.

Of course, the obvious question is whether this yield is sustainable. Crescent Point can manage this payout for a couple of reasons. First, management has been conservative hedging out 60% of its production through 2014. That should hold the company over if there are any short-term hiccups in the market. Second, management has also been prudent in how they've financed the company's expansion. Rather than leveraging up the balance sheet, the company has issued equity to grow its operations.

Crescent generates \$1 in cash flow for every dollar of debt it has on the books. This gives the company ample flexibility. If Crescent can continue its expansion, that should provide plenty of room for more dividend hikes down the road.

Foolish bottom line

The Bakken could be one of the most important developments in the energy industry this decade and Crescent Point is a great way to play it. And the company's 7.2% dividend yield doesn't hurt, either.

The Motley Fool's top two stock ideas

The Motley Fool Canada's senior investment analyst just unveiled his [top two stock ideas](#) for new money now. And YOU can be one of the first to read his buy reports — just [click here](#) for all the details.

Disclosure: Robert Baillieul doesn't hold positions in any of the stocks mentioned in this article.

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