



## The Stock Picker's Guide to Crescent Point Energy for 2014

### Description

Canadian domiciled energy heavyweight **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) continues to perform strongly, recently listing on the New York Stock Exchange. Not only does it continue delivering outstanding financial and operational performances, but it consistently rewards investors with an attractive dividend yield in excess of 7%. However, there is a significant headwind emerging that may impact the company's performance in 2014 and beyond.

#### **Delivered a solid 2013 operational and financial performance**

Crescent Point delivered an exceptional operational and financial performance for 2013, with the company expected to report average daily production of 119,000 barrels, a 21% increase over 2012. As a result of the growth in production, Crescent Point estimates funds flow of \$2.02 billion or \$5.20 per share, which is an increase of 26% over the previous year.

The company also continues to maintain a solid balance sheet with debt being a mere one times cash flow and EBIDTA. Crescent Point has a significant unused credit facility that has almost \$1.7 billion available. All of which leaves Crescent Point well positioned to continue funding its operations and capital expenditure should there be a significant downturn in operating conditions and crude prices.

As a result of this financial strength, Crescent Point confirmed its annual 2013 dividend payment will total \$2.76 per share, maintaining its impressive dividend yield of 7%. It has also seen Crescent Point set an impressive capital development budget of \$1.75 billion for 2014, an increase of 3% over 2013.

#### **The outlook for 2014 is extremely positive**

Crescent Point believes this increase in capital expenditure will allow it to grow production for the full year 2014 by 6% to a daily average of 126,500 barrels of oil. The company has forecast that it will generate 2014 annual funds flow of \$2.1 billion, a 4% increase over 2013, leaving Crescent Point well positioned to continue rewarding investors throughout 2014 with its attractive dividend yield of 7%, while preserving the strength of its balance sheet.

#### **Growing U.S. oil production will see demand for Canadian light oil decline**

Clearly Crescent Point is well positioned to continue delivering value for investors throughout 2014, but

there is a significant emerging headwind that may impact the company's performance.

This headwind is the [ongoing and significant growth](#) in U.S. shale oil production. This rapid growth will see U.S. demand for imported crude fall drastically, with Canada expected to be one of the worst hit.

Already we can see the impact this is having on the demand for Canadian light oil, with the price differential between Canadian light oil (Edmonton Par) and West Texas Intermediate growing by 9% since the start of 2014. Edmonton Par makes up a significant portion of Crescent Point's total crude production. Any further widening in the price differential with West Texas Intermediate will impact the company's cash flow, margins and profitability, potentially threatening its dividend and capital expenditure.

The projected increase in production for 2014 will offset any decline in the price of Edmonton Par and allow Crescent Point to continue generating significant cash flow grow. I do not envisage any significant threat to the company's dividend or capital expenditure particularly when it still has a significant undrawn credit facility on hand.

#### **Foolish bottom line**

Crescent Point has performed strongly delivering consistent value for investors and rewarding their patience with a highly attractive dividend yield. It is also set to continue delivering a strong performance throughout 2014, despite emerging headwinds centered on speculation that U.S. demand for Canadian light crude will decline.

#### **CATEGORY**

1. Investing

#### **TICKERS GLOBAL**

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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1. Investing

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