3 Reasons to Buy Crescent Point Energy

Description

What is Scott Saxburg building?

Over the past decade, the Chief Executive of **Crescent Point** (TSX:CPG)(NYSE:CPG) has grown from an obscure energy startup to one of the largest companies in the Canadian oil patch. Through a series of smart acquisitions, Mr. Saxburg has collected a great set of light-oil assets throughout Western Canada, North Dakota, and Utah, while rewarding shareholders handsomely in the process.

However, we're still in the early innings of the Crescent Point growth story. Here are three reasons to consider adding this stock to your portfolio.

1. Exceptional growth prospects

Crescent Point has posted some incredible numbers over the past few years. Since 2002 the company has been able to grow reserves at a 7% compounded annual clip. Production growth has been even more impressive, increasing 18% each year. Notably, 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 experimenting with waterflooding — the process of pumping water into declining wells in order to boost production.

Think of an oil well like a glass ketchup bottle. At first, the ketchup flows out easily. But eventually, you have to shake the bottle to get the rest of it out. Waterflooding is the equivalent to using a knife to scoop out the rest. It's more expensive and time consuming, but it vastly increases the amount of oil produced.

Five years ago, it wasn't clear if waterflooding could be applied to tight oil wells. However, today it has proven to be a tremendous success. Waterflooding has doubled the recovery factor of company's Bakken wells to as high as 30%. This allowed the company to vastly increased the number of barrels it can book as proved reserves.

2. Ridin' the rails

Big production growth steals all of the headlines. However, investors also have to be worried about how much the company is earning on each of those barrels. And with production growing rapidly in the American Midwest, there's a growing worry that Bakken crude may run into the same transportation problems we've seen in the Alberta oil sands.

Fortunately, management saw this coming. The company has secured 60,000 barrels per day in rail transportation. This ensures that its new production has an escape route.

Crescent Point also has an advantage over its U.S. counterparts. As vice president Trent Stangl pointed out in the company's conference call last quarter, Canadian crude has a competitive advantage in the sense that there are no hurdles to export. American regulations prohibit this. That means Crescent Point can earn $10 to $15 per barrel more over its American peers.

3. That big, juicy dividend

But what should really get investors interested in Crescent Point is the company's 6.9% dividend yield. Investors can expect this payout to increase in line with cash flow and earnings growth.

Of course, the obvious question is whether this yield is sustainable. Crescent Point can manage this payout for a couple of reasons. First, the company is paying out only 50% of profits. Second, management has hedged 65% of its production through 2014. This is a conservative policy that should hold the company over if there are any short-term hiccups in commodity prices.

Foolish bottom line

Scott Saxberg is building a titan in the Canadian oil patch. The company's exceptional growth prospects and commitment to rewarding shareholders is a winning combination. As Crescent Point delivers on its vision, the stock should continue its march higher.

CATEGORY

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