Earn a 6.2% Yield From This Top Oil Stock

Description

Oil_Pump_North_Dakota

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Its payout stands out like an oasis in today's income desert.

With a yield of 6.2%, it's not hard to see why **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) is a favourite of dividend investors.

But in addition to its high yield, you'd be hard pressed to find a more visible earnings growth story anywhere else in the oil patch.

Buoyed by rising production and energy prices, Crescent Point has boosted its dividend 35% over the past decade … and this might only be the beginning.

One theme becomes immediately obvious when you study the company's first-quarter results: growth. There are double-digit percentage gains throughout this report, from 11% growth in daily production to 27% growth in funds flow over a year ago. With all of the ventures the company is tinkering on, this trend should continue for much longer than a few quarters.

In May, Crescent Point announced it had discovered a new oil play in southern Saskatchewan near the U.S. border. The company calls this play the Torquay, but it's actually an extension of the Three Forks field, which underlies the Bakken in North Dakota.

Over the past year, Crescent Point has accumulated 141,000 acres of land in the play with the potential to drill at least 480 wells. These wells appear to be incredibly profitable, generating returns up to 300%. Needless to say, the company can make a lot of money drilling at those rates.

Other producers are rushing into the Torquay as well. In April, **Vermilion Energy** (TSX: VET)(NYSE: VET) paid $427 million to break into the emerging shale field with a takeover of privately held Elkhorn Resources and its extensive undeveloped acreage. Although not a material area for Vermilion today, the acquisition could be used as a starting point for further expansion in southeast Saskatchewan.

A few weeks later, **Legacy Oil and Gas** (TSX: LEG) paid $588 million in a combination of shares, cash, and debt to buy privately owned Highrock Energy. After this deal is completed, Legacy is looking to drill more than 100 locations in Saskatchewan later this year, including multiple sites in the Bakken and the Torquay.

What I really like about Crescent Point is the hidden asset you won't find on its balance sheet: 18 billion barrels of oil sitting underneath the company's land.

Of course, not all of that oil will be recovered. The company's third-party auditors have only allowed the company to book 664 million barrels in proved plus probable reserves. Do the math, and the market expects Crescent Point to recover only 3.7% of the oil in place.

However, shale drilling technology is only in its infancy. The company is experimenting with a number of enhanced recovery techniques like infill drilling, better fracturing techniques, longer horizontal wells, tighter well spacing, water and natural gas flooding, and others. That could increase the recovery factor on each of its wells significantly.

With each 1% bump in the amount of oil Crescent Point can recover, the company can increase its recoverable reserves by 180 million barrels. With the pace of technological advances, it's not inconceivable that Crescent Point could double or triple the recovery factor on its wells over the next few years. That would create an enormous amount of value for shareholders.

The bottom line is that Crescent Point offers a tempting combination of yield and growth. For investors who can stomach volatile oil prices, this is a quality addition to any income portfolio.

CATEGORY

1. Investing

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1. NYSE:VET (Vermilion Energy)
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3. TSX:VET (Vermilion Energy Inc.)
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