



## Why the Future Looks Bright for Crescent Point Energy

### Description

Light and medium oil titan **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) has long been a favourite among Canadian investors because of its dividend yield of over 6%. There is more to Crescent Point than just this juicy yield, though, which makes it an attractive opportunity for both income-hungry and growth-oriented investors.

### Access to higher crude prices

The company is the largest light and medium oil producer in the patch, and this allows it to capitalize on the higher price generated by Canadian light crude Edmonton Par.

Unlike Canadian heavy crude, known as West Canada Select, Edmonton Par trades at a lower discount to West Texas Intermediate, allowing Crescent Point to generate solid margins, or operating netbacks per barrel of crude produced. At the end of May 2014, Edmonton Par was trading at a 12% discount to WTI, whereas West Canada Select heavy crude was trading at a 23% discount.

### Its current growth strategy continues to unlock value for investors

The company has also focused on a dividend plus growth strategy that sees it consistently paying a set dividend and focusing on growing the core value of the company through a combination of organic growth and acquisitions.

This has seen Crescent Point make a number of accretive acquisitions over recent years, with the most recent being the CANERA acquisition completed in May of this year. The CANERA acquisition has boosted Crescent Point's presence in the Torquay formation in southern Saskatchewan, which is part of the Three Forks formation that extends from North Dakota. This acquisition was completed for a total of \$1.1 billion. It has boosted Crescent Point's oil reserves by 54 million barrels and its average daily production by 10,000 barrels.

More importantly, this additional production is quite profitable, delivering an average operating netback of \$64 per barrel. This is almost 22% higher than Crescent Point's first quarter operating netback of \$52.65 per barrel, which is among the highest in the patch, boding well for Crescent Point to continue

growing its profitability.

The acquisition has allowed Crescent Point revise its 2014 production guidance upwards, with 2014 oil production now expected to be 5% higher than originally forecast at a daily average of 133,000 barrels. It has also revised its forecast 2014 funds flow from operations, increasing it by 6% from the original guidance to \$2.38 billion.

This augurs well for Crescent Point to deliver a stronger financial performance throughout the remainder of 2014, particularly with the price of West Texas Intermediate still well above \$100 per barrel.

### **Core assets continue to grow**

Another appealing aspect of Crescent Point is that its oil reserves and production continue to grow. Oil production for the first quarter of 2014 jumped a healthy 2% compared to the previous quarter and 11% over the first quarter of 2013, and net oil reserves, inclusive of the CANERA acquisition, grew a respectable 17% since the end of 2012 to 630 million barrels.

These net oil reserves have a net present value (after future values have been discounted by 10% in accordance with industry methodology) of around U.S.\$17.1 billion, or U.S.\$43 per share, which is a premium of 5% over its current share price. When this is considered in conjunction with Crescent Point's consistent dividend yield in excess of 6% and steadily growing funds flow from operations, it is easy to see the growth potential Crescent Point offers investors.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Investing

### **Date**

2025/09/10

### **Date Created**

2014/06/12

### **Author**

mattsmith

default watermark