Is Crescent Point Energy About to Hit $70?

Description

CDN_Ops5 image not found or type unknown Investors who took my advice to buy shale oil producer **Crescent Point Energy** (TSX: CPG)(NYSE: CPG) last fall are up double-digits today. Even better, there's still more upside ahead …

Last October, I highlighted this emerging Saskatchewan oil producer because of its explosive growth and tall yield. Since that first report, the bull thesis has been getting even better.

Despite the recent rally, it's not too late to jump on this name. Here are three reasons why this stock could easily return at least another 50% over the next 12 to 18 months.

1. Growth … Growth … GROWTH

If you take the time to study Crescent Point's second-quarter results, one thing becomes immediately obvious: This is the best growth story in the Canadian oil patch.

Double-digit gains are littered throughout the report, from the 27% growth in funds flow from operations over last year to the 11% gain in daily oil production. With the number of emerging shale plays the company has in its portfolio, investors can count on this expansion to continue for years to come.

That was before the company's big new oil find — the Torquay. The play is located in southern Saskatchewan near the United States border, and is actually an extension of the prolific Three Forks field in North Dakota.

Early drilling has been promising. Management is generating internal rates of return between 90% and 300% depending on the location of the well. Needless to say, the company can make a lot of money with those types of returns.

Over the past year, Crescent Point has accumulated about 141,000 acres in the play. On that land, the company estimates it can drill at least 400 wells, though that number could be pushed higher through improvements in technology. Regardless, the Torquay has added another leg to Crescent Point's growth profile.

2. The hidden asset off the company's balance sheet

Here's what really gets me excited about Crescent Point: The company is sitting on top of 18 billion barrels of oil in place. However, this massive asset has gone almost completely unnoticed by investors because you will never find it on the company's balance sheet.

Why? Because the company's third-party auditors have only allowed Crescent Point to report 664 million barrels in proved plus probable reserves. Based on current technology and oil prices, they estimate that Crescent Point will only recover 3.7% of its oil in place.

Normally, this is a prudent measure. However, new shale drilling technologies are improving rapidly. The company is experimenting with a variety of new horizontal wells, in-field drilling, tighter well spacing, water flooding, and other methods. That could significantly increase the recovery factor on each well.

With each 1% bump in the recovery factor, Crescent Point could could book an additional 180 million barrels in recovery reserve. Over the next few years, it wouldn't be shocking to see the company double or triple the recovery factor on each of its wells. That would create an enormous amount of value for shareholders.

3. That 6.2% yield

While this growth story plays out, shareholders are being paid to wait. Buoyed by rising production and energy prices, Crescent Point has increased its dividend 35% over the past decade. Today, the stock yields a hearty 6.2%.

When you look at what Crescent Point's properties are, the firm should be able to support its dividend without much struggle. Given that the company is paying out less than 50% of its funds flow from operations, there's plenty of cushion if industry conditions turn south.

The bottom line is that for investors who can stomach volatile energy prices, Crescent Point offers a tantalizing combination of growth and yield. If management can deliver on its expansion strategy, this stock could deliver impressive returns for investors.

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Author

rbaillieul