Crescent Point Energy Corp: Earn a 6.2% Dividend Yield From the Bakken Oil Boom

Description

Some people feel like they have to choose between dividend yield and growth. But I say why not both?

Case in point: **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG).

As regular Motley Fool Canada readers know, business is rockin' in the Bakken — an oil-rich shale formation that lies underneath most of Montana, Saskatchewan, and North Dakota.

Last year, the United States Geological Survey doubled its reserve estimate for the combined Bakken and Lower Three Forks formations. The agency now projects that this field contains some 7.4 billion barrels of undiscovered, technically recoverable oil. Then in June, Bakken oil production surpassed one million barrels per day — making it one of only a handful of oil plays in the world to hit that milestone.

Of course, the Bakken boom has been a bonanza for Canadian oil drillers like Crescent Point. Over the past decade, the company's oil reserves and production have grown at an 18% and 7% compounded annual clip, respectively. Cash flow has ballooned nearly six-fold.

But there's good reason to believe the company's best days might still be ahead. Last April, Crescent Point announced the discovery of a monster new oil find — the Torquay. The play is located in Southern Saskatchewan near the U.S. border, and is actually an extension of the prolific Three Forks field in North Dakota.

Over the past year, Crescent Point has accumulated 200 net sections (about 141,000 acres) of land in the play. On that land the company estimates that it can drill at least 400 wells. Most importantly, those wells appear to be very profitable, generating internal rates of return between 90% and 300% depending on the location.

To put those numbers into perspective, an oil well is considered a great investment if it can generate an internal rate of return between 50% and 70%. Torquay wells are true gushers.

The other exciting part of the Crescent Point story is the fact that the company is sitting on 18 billion barrels of oil in place. The firm’s third-party auditors estimate that the company will only be able to recover a tiny fraction of these resources given today’s current technology and energy prices.

However, Bakken drillers are just beginning to experiment with new techniques like infill drilling, longer horizontal wells, water and natural gas flooding. With each 1% increase in the amount of oil Crescent Point can recover, the company can book an additional 180 million barrels of recoverable reserves. To double its current reserves Crescent Point would only need to increase this recovery factor by 3.6%.

Needless to say, that would create an enormous amount of value for shareholders. And based on the results the industry has seen from other shale plays, Crescent Point has the potential to do a lot better than just double its reserves over time.

While investors wait for this growth story to play out, they’re being well compensated. Boosted by rising production and energy prices, Crescent Point has increased its dividend 35% over the past 10 years. Today, the stock yields 6.2%, three-times higher than a 10-year Government of Canada note.

Of course, Crescent Point is no slam dunk. The stock sports some of the highest valuations in the Canadian oil patch on several financial metrics. And as any armchair equity analyst could tell you, the company’s earnings (and ultimately its dividend) are highly exposed to volatile oil prices.

That said, the company is conservatively financed generating almost one dollar in cash flow for every dollar of debt on its balance sheet. Crescent Point has also hedged about two-thirds of its 2014 oil production, which should allow the firm to maintain its dividend even if oil prices take a temporary dip.

The bottom line is, Crescent Point offers a tempting combination of growth and yield. For investors who can stomach the risk, this stock deserves a place in any income portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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