Why Crescent Point Energy Corp. Is an Exceptional Alternative to the Alberta Oil Sands

Description

Crescent Point Energy Corp. (TSX: CPG)(NYSE: CPG) has been in the news a lot this summer, with a steady string of acquisitions and updated guidance numbers. For those unfamiliar with Crescent Point Energy, it has — unlike those of a traditional oil sands company — the bulk of its operations in Saskatchewan. In order to take full advantage of the Bakken resource play, it also has operations in Manitoba, Alberta, North Dakota, and Utah.

This is an interesting resource stock for investors to consider. By not being entrenched in the Alberta oil sands, it avoids much of the international politics about “dirty oil” and faces less overbooked pipelines. Let’s see how this company is growing through key acquisitions and what the future holds for its 6.4% dividend yield.

The newest expansion

The latest deal struck by Crescent Point Energy is with Lightstream Resources Ltd. for $378 million, wherein it acquired 76 net sections of land, including 42 undeveloped sections located in eastern Saskatchewan and western Manitoba, as well as 44 net sections of undeveloped fee title land, for which it has high hopes.

This is a good portfolio of land for Crescent Point as much of it borders its existing operations. The newly acquired land currently produces about 3,300 boe/day of mostly light oil with an average net back of $62.00/boe. Geologists have projected this land to hold 13.2 million boe of proved plus probable and 8.6 million boe of proved reserves with a work life of seven to 11 years.

Another round of production guidance increases

Thanks to this acquisition and an aggressive capital expenditure plan, Crescent Point has once again raised its 2014 production guidance numbers. The company now projects its 2014 exit production rate at 155,000 boe/day and estimates its average daily production at 140,000 boe/day. This is quite impressive when you consider that it only averaged 98,000 boe/day back in 2012.

This increased production will come with a cost, though, as the company has also increased its capital expenditure budget for the year to $2 billion, up by $200 million. This is above and beyond the $1.5 billion it paid out in capital acquisitions in Q2 2014 alone.

Debts vs. dividends

The biggest question facing Crescent Point Energy is its growing debt. In its Q2 2014 report, the company said that its net debt had grown to $2.8 billion from the $1.8 billion it owed at the end of Q2 2013.

Now in order to fund this newest deal with Lightstream, Crescent Point Energy is opting to engage in a bought deal offering worth between $750 million to $863 million.

Yet somehow, despite the capital spending and mounting debt, the company is still in a positive cash flow position: It reportedly had $636 million on hand in the second quarter, a 26% increase over last year, while annual cash flow is projected to reach $2.5 billion, up from previous estimates of $2.45 billion. Net income also grew to $98.8 million or $0.24 per share, which is up 36% in the quarter and up 83% year to date.

Investors are watching this debt-to-production ratio very closely as Crescent Point Energy's monster dividend of $2.76 per year (paid monthly) with a yield of 6.4% seems too good to pass up.

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