3 Reasons to Buy Crescent Point Energy Corp. Today

Description

Crescent Point Energy Corp. (TSX: CPG)(NYSE: CPG) is rockin' in the Bakken. Over the past decade, the company has grown from an obscure energy startup to one of the largest companies in the Canadian oil patch.

But Crescent Point gets no respect. Over the past three months, the stock is down 15%, which is even more remarkable when you consider the broader stock market rally. Let me show you three things Mr. Market forgot when it comes to Crescent Point's value.

1. Mr. Market forgot about technology

Crescent Point is sitting on 18 billion barrels of oil in place. Of course, the company is likely to only extract a tiny fraction of those resources. According to its third-party auditors, Crescent Point will only be able to recover about 3.6% of that figure using today's drilling techniques.

But here's the thing: Shale drilling technology is still in its infancy. The company is just beginning to experiment with new techniques such as infill drilling, longer horizontal wells, and water flooding. If Crescent Point can increase the recovery factor on its wells by just 1%, it would unlock an enormous amount of value for shareholders.

2. Mr. Market forgot about growth

In April, Crescent Point announced the discovery of a mammoth new oil field — the Torquay. The play is located in Southern Saskatchewan near the U.S. border, and is actually an extension of the prolific North Dakota Three Forks field. Early estimates suggest that this formation could rival the nearby Viewfield Bakken.

Torquay wells are true gushers. Depending on the location, drilling in the Torquay can generate internal rates of return between 90% and 300%. To put that into perspective, a well is considered a great investment if it can generate a return on investment between 50% and 70%.

3. Mr. Market forgot about dividends

Investors are being well compensated while they wait for this growth story to play out. Crescent Point has hiked its dividend 35% over the past decade. Today, the stock yields 6.6%, one of the highest payouts in the oil patch.

You can count on that payout to continue growing in the years ahead. Right now, Crescent Point pays out less than half of its fund flows from operations, the lowest ratio in the company's history. Cash flows should also get a boost from growing production.

The bottom line

Crescent Point offers a tempting combination of growth and yield. If you have been waiting for an opportunity to buy this stock, now is your chance.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date
2025/09/10
Date Created
2014/09/18
Author
rbaillieul