Crescent Point Energy Corp. Is Downgraded: Is This a Signal to Sell?

Description

The ongoing rout in crude prices is wreaking havoc with Canada's energy patch, and investors and analysts are becoming increasingly nervous over the future of a number of oil companies. This has seen the outlook for many oil companies downgraded by analysts, the latest being **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). Analysts at Dundee have downgraded the outlook for Canada's largest independent oil explorer and producer from "buy" to "neutral" because of concerns over how the rout in oil prices will affect its performance.

So what?

Despite the rout in crude prices that now sees oil trading at its lowest level in over five years, there are a number of Canadian oil companies that are still profitable. The sharp sell-off of oil stocks over the last three months now sees many trading at bargain basement prices. Crescent Point appears attractively priced with an enterprise value or EV of eight times its estimated 2015 EBITDA and 22 times its oil reserves.

More importantly, despite slashing 2015 capital expenditure by 28% compared to 2014 in order to preserve capital and protect its balance sheet, Crescent Point expects oil production to grow an impressive 9% in comparison to 2014.

It has also hedged over 50% of its 2015 oil production at an average price of $90 per barrel. In conjunction with increasing oil production, this will help to protect Crescent Point's cash flow and ensure there are sufficient funds available to meet its financial commitments.

One of those commitments that is dear to the heart of investors is Crescent Point's monthly dividend of $0.23 per share, which gives it a monster dividend yield of 9%. While there are legitimate concerns among investors the dividend could be cut, Crescent Point continues to assure investors that this will not occur, and the company plans to further cut capital expenditures in order to ensure it is maintained.

Another of its key strengths is its solid balance sheet that has a low degree of leverage with net debt of 1.4 times cash flow. This is significantly lower than many of its peers, with the average among Canadian oil companies being twice their cash flow.

Such a low degree of leverage gives Crescent Point considerable balance sheet flexibility, meaning that not only is it well placed to weather the rout in crude prices but it also could make acquisitions in the current operating environment. This is a real boon for Crescent Point because the marked softness in crude prices and the rout in oil stocks means a range of oil assets are trading at bargain basement prices.

Now what?

It is difficult to see why Dundee has downgraded Crescent Point for any reason other than the ongoing significant weakness in oil prices and the uncertainty surrounding when they will recover. If anything, Crescent Point is my preferred play on a rebound in crude prices. It’s now very attractively priced after seeing its share price plunge 29% over the last year.

Not only does it have a strong balance sheet, but management has wisely instituted a range of strategies to mitigate the impact of lower crude prices. These strategies should protect its dividend, giving investors the opportunity to be handsomely rewarded by a 9% dividend yield while they patiently wait for crude prices to rebound.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VRN (Veren)
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mattdsmith