Why Crescent Point Energy Corp. Is Now One of the Best Energy Stocks You Can Own

Description

It's amazing how much the tone in Canada's energy patch has changed, and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) offers a perfect example. If you don't believe me, just look at what CEO Scott Saxberg said in Crescent Point's 2013 letter to shareholders:

> "2013 was a year of tremendous organic growth for Crescent Point. We set new production records, continuously raised and exceeded our targets and achieved average daily production of more than 120,000 boe/d, a 22% increase over our average daily production rate in 2012."

In other words, the company was clearly focused on growth. Now of course, it emphasizes its strong balance sheet, low-cost production, and hedging strategy. So what does this mean for investors? Should you take a stake in the new Crescent Point? Below we take a look.

The old Crescent Point

Before the oil price collapse, Crescent Point did a lot of things that value investors (such as myself) absolutely despise. First of all, the company seemingly made growth its top priority — in 2012 alone, Crescent Point spent US$3 billion on acquisitions. And last year, the company spent another $1.5 billion on two big buyouts. Crescent Point funded much of these takeouts with new shares.

Crescent Point also paid a very high dividend, and incentivized its shareholders to take their payout in new shares, rather than cash. This dividend policy, in addition to the many acquisitions, caused the company's share count to increase by more than 60% from 2010 to 2013.

What happened at the end of last year?

At first, Crescent Point didn't miss a beat from last year's oil collapse. The lower prices meant that assets could be bought at a discount, especially from weak competitors, something Mr. Saxberg emphasized in early November. This was also backed up by his actions — Crescent Point had just spent $400 million on assets previously owned by **Lightstream Resources Ltd.** (TSX:LTS), a company in deep financial trouble.

But then, when the oil market really went into a rout, other producers began cutting their dividends. Investors were clearly worried about the same thing happening at Crescent Point, whose stock price fell by 40% in just over three weeks.

So where is Crescent Point now?

Crescent Point ended up being one of Canada's only high-yielding oil producers *not* to cut its dividend. And now, it is ironically one of the safest companies you can find in Canada's energy patch. How did this happen?

Well first of all, when Crescent Point made those big acquisitions, it emphasized new shares as a source of financing, rather than debt. So today, it has a very strong balance sheet. Secondly, Crescent Point bought very economic properties, allowing the company to remain profitable even with low oil prices. Finally, the company maintained a strong hedging program, something Mr. Saxberg only mentioned briefly in his 2013 letter.

So if you're looking to bet on the Canadian energy sector, Crescent Point may be one of your better options. This is not something I would have said a year ago.

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