Why Crescent Point Energy Corp Is the Best Way to Bet on an Energy Rebound

Description

On Monday, **Bank of America Corporation** released a new report arguing that oil prices could fall to US$32 by the summer. What makes the bank's analysts so pessimistic?

The answer has to do with heating oil, which has seen a surge in demand, thanks to below-average temperatures in the eastern United States. Of course, this cannot last forever. Once the summer arrives, this heating-oil demand will go away, causing oil prices to decline further.

This would be a very scary scenario for many of Canada's energy companies, as well as their investors. Even if the oil price does recover eventually, some firms simply won't be able to ride out the storm.

For that reason, if you're looking to bet on an energy rebound, stock selection is more important than ever. If you pick the wrong company, you could see huge losses by the summer, even if the oil price recovers eventually. On that note, we highlight one energy company to consider: **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG).

Why Crescent Point is one of your best options

When betting on the oil price, you'll want a company with a solid balance sheet, a strong hedging program, and low-cost operations. Crescent Point checks all three boxes.

First of all, the company's balance sheet is one to be envied. Its $2.5 billion in net debt is less than 20% of the company's market value, a number well below the industry average. Better yet, the company has an extra $1.6 billion of unused credit capacity.

Crescent Point also has a very strong hedging program, with over half of 2015 production already locked in at prices higher than US$90 per barrel. Only two other large Canadian producers have hedged more of their 2015 output. So, even if the oil price falls to US$32 by the summer, Crescent Point should be able to ride out the storm.

Finally, Crescent Point has very low-cost operations, with its properties historically needing US$40-60 oil prices to break even. Furthermore, with oil prices so low, service costs are falling, making this production even more economic. Once again, a fall to US$32 oil prices wouldn't help anyone in the industry, but Crescent Point should remain very resilient.

How to play the dividend

Before you buy Crescent Point, there's a very important point to be made about the dividend. After all, the company has the highest dividend yield of any company on the **S&P/TSX 60**, currently at close to 9%.

Crescent Point has a program in place that incentivizes shareholders to receive their dividend in shares, rather than cash. To be specific, anyone who forgoes cash gets a 5% discount on the market stock price.

I would recommend taking advantage of this. After all, if you're willing to buy Crescent Point shares on the open market, you should be willing to accumulate more shares at a discount. For those of you looking for stable cash dividends, I would look outside this sector.

CATEGORY

1. Energy Stocks
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