



Is Crescent Point Energy Corp. Overpriced or Underpriced?

Description

On Wednesday, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) announced results for the fourth quarter of 2014. Investors were generally impressed with the numbers and have sent the company's shares higher.

Along with the earnings numbers, Crescent Point also released its reserve data. I know this sounds boring, but these numbers answer a very important question: Are the shares overpriced or underpriced?

The basic numbers

According to an independent analysis, Crescent Point's reserves are worth roughly \$12.8 billion. This assumes a discount rate of 10% and includes taxes, both reasonable assumptions.

The company also has some cash, debt, and derivatives that must be taken into account. When doing so, this \$12.8 billion value becomes roughly \$10.7 billion, or \$24 per share. By comparison, the stock trades at roughly \$28.50 (as of this writing). So, the shares seem slightly overvalued.

The assumptions

Before this analysis is complete, let's take a look at the assumptions. In other words, what oil prices were used when determining Crescent Point's true value?

Well, the valuation above assumes an average oil price of US\$62.50 in 2015 and US\$75 in 2016. From there, the oil price rises by US\$5 per year until 2020 and keeps increasing thereafter. In other words, Crescent Point's valuation assumes a pretty robust oil recovery.

To put this in proper perspective, the U.S. Energy Information Agency is now projecting a US\$52.50 average oil price in 2015, 16% below Crescent Point's number.

This doesn't seem like a fair deal to me. After all, if you buy an oil stock, and the oil price recovers, you should expect to make money. In this case, a recovery is already baked into the stock price. So, if oil *doesn't*

recover, then the shares are even more overvalued, and the stock price will likely fall.

Why are the shares overvalued?

There are a couple of reasons why Crescent Point trades at a healthy premium.

First of all, this is a very solid company, one with low-cost production, strong hedges, and a solid balance sheet. For that reason, it's a very popular way to bet on an oil recovery. Many investors who got burned by weak oil companies have likely shifted into Crescent Point.

Second, Crescent Point has the highest dividend yield on the **S&P/TSX 60** and will not be cutting that payout any time soon. So, without a doubt, income-oriented investors are drawn to the stock.

It's no surprise that Crescent Point shares are quite pricey. However, that's no reason to join the fray. After all, there are better places to invest your money.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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

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Date

2025/09/09

Date Created

2015/03/12

Author

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