Why You Should Buy Crescent Point Energy Corp. Even if the Oil Rout Continues

Description

Despite oil falling lower in recent days, and the North American benchmark price West Texas Intermediate (WTI) now well under US$50 per barrel, I believe now is the time to buy **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Now what?

Since the oil rout began six months ago, Crescent Point's share price has fallen by 25%, leaving it attractively priced, even after accounting for the risk of oil prices falling further. These attractive valuation measures include an enterprise value of eight times its forecast 2015 EBITDA and 19 times its oil reserves, but it is the company's solid balance sheet and high-quality asset base that make it appealing.

Crescent Point, through a series of accretive acquisitions over the years, has amassed a considerable acreage of oil properties. At the end of 2014, Crescent Point had oil reserves of 807 million barrels, which is a 22% increase compared with 2013. The majority of those reserves are comprised of light and medium oil. This is of particular importance because Canadian light and medium crude blends trade at a far lower discount against WTI than Canadian heavy crude blends. These reserves have an independently assessed value of $35 per share, which represents a 19% premium over Crescent Point's current share price.

Crescent Point's clean balance sheet is another reason to invest. It has a low degree of leverage, with net-debt a mere 1.3 times cash flow and 1.1 times EBITDA. Both of these ratios are far lower than many of Crescent Point's peers, both in Canada and in the U.S., and are a testament to the conservative approach towards risk taken by management.

They also give it a considerable degree of financial flexibility. In conjunction with its hedging position, which sees 56% of 2015 oil production hedged at $89 per barrel, Crescent Point is well positioned to weather the oil rout. Even if oil prices remain weak for a sustained period, the company's hedges extend all the way into 2018, thereby protecting a portion of its cash flow from these markedly weak oil prices.

These hedges will shield Crescent Point's cash flow, and combined with 2015 production that is expected to grow by 8% compared with 2014, will help to replace the revenue lost because of weak oil prices.

So what?

Some analysts are claiming that Crescent Point is overvalued because its value has not declined as much as its U.S. counterparts. However, unlike those counterparts, it has a strong balance sheet with a particularly low degree of leverage and a high-quality portfolio of light oil assets. This help the company remain profitable, should oil prices remain low for a sustained period.

Despite these strengths, this investment is not without risk. Any further sustained drop in crude prices will trigger further cuts in expenditure, and this may include its dividend. Nonetheless, I believe the risk-reward trade-off is in favour of the investor, with considerable potential upside available when oil prices rebound.

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