# Which Is a Better Buy Now: Enerplus Corp or Crescent Point Energy Corp?

## Description

It's easy to dream about **Crescent Point Energy Corp's** (TSX:CPG)(NYSE:CPG) monster 9% dividend yield. A yield that high could provide tons of cash flow each month for any future retiree. However, before dismissing the weaker 4.1% payout of **Enerplus Corp** (TSX:ERF)(NYSE:ERF) there are three things investors should consider when choosing between the two: Valuation, balance sheet, and returns. Let's compare the two companies to see how they stack up.



### Valuation

One of the first things investors tend to look at when thinking about buying a stock is the company's P/E Ratio. However, that ratio can be deceiving when it comes to oil companies, as the *E* in the earnings ratio can be impacted to a greater degree by gains or losses in oil and gas hedging, as well as asset write-downs when commodity prices fall.

That's why I'm an advocate of looking at a company's Enterprise Value-to-EBITDA ratio (EV/EBITDA). This ratio looks at the underlying cash flow that's generated by the business, while also factoring in leverage. It often tells a very different story, which is pretty evident on the following chart.

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CPG vs ERF valuation

Here we see that Crescent Point comes up a bit short on the earnings side of things. In fact, it hasn't earned any money in the past year, at least on an accounting basis. This, however, is a prime example of why P/E ratios and even EV/EBITDA ratios can be skewed by oil and gas accounting, as gains or losses in oil and gas hedges, as well as asset write-downs, can wipe away the accounting profits of oil and gas companies. Still, because Enerplus has actual earnings we can value, we're going to give it the win on valuation.

### Balance sheet

While oil and gas accounting can make it difficult to see the earnings of an oil company, one thing it can't mess with is a company's balance sheet. Here's how these two compare.

CPG vs ERF balance sheet

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We see that the two have a very similar leverage ratio, despite the fact that Crescent Point's debt has ballooned in the past few years. The reason Crescent Point's growing debt hasn't negatively impacted its leverage ratio is because it used debt to buy cash flowing assets. Because of this, the only real way to compare these two companies is to look at how much of their enterprise value is made up of debt. In this case, we find that Enerplus is the more highly indebted of the two, as debt is 27% of its enterprise value, while debt is just 17.5% of Crescent Point's value. Because of that, Crescent Point's balance sheet is stronger.

**Returns**

For the tiebreaker we'll take a closer look at the returns these companies are earning on the investments they're making on new wells or acquisitions. Here we see a clear winner.

CPG vs ERF returns

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Enerplus' returns have been trending higher and are now well above where Crescent Point's returns have been. A lot of that has to do with the company's focus on drilling high-returning shale wells, as opposed to Crescent Point's acquisition-driven model. That said, those high returns should lead to stronger future cash flows and better shareholder returns.

**Investor takeaway**

Crescent Point might have the higher dividend and a slightly better balance sheet, but Enerplus is a better value and has higher returns. This should lead to better long-term performance from the stock making it the better buy of the two.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:ERF (Enerplus Corporation)
2. NYSE:VRN (Veren)
3. TSX:ERF (Enerplus)
4. TSX:VRN (Veren Inc.)

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