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Why the Fracklog Should Make Crescent Point Energy Corp. Investors Very Nervous

Description

There's a new term being heard around the energy sector these days: "fracklog." But what exactly is this term, and what effect does it have on **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG)?

First, a look at Crescent Point

Crescent Point is a favourite among dividend investors, and for good reason. Its dividend yields over 8%, good enough for first place on the **S&P/TSX 60**. Better yet, it's shown no signs of being cut—no small feat for an energy company these days.

Crescent Point is also a favourite for energy investors. It has a clean balance sheet, a strong hedging program, and very high-quality assets. The company is clearly well positioned for an energy-price rebound, and should be able to survive until then.

As a result, the shares seem to trade at a premium. To illustrate, its reserves have a fair value of $12.8 billion, assuming a robust oil recovery and a 10% discount rate. After adjusting for debt and hedges, the company is worth roughly $24 per share, well below its $32 share price.

So, even if the oil price stays flat, there's a lot of downside for Crescent Point. This brings me to the "fracklog" phenomenon.

What is fracklog?

All across America, energy producers are expecting oil prices to rebound. For this reason, they're choosing to delay production, even at wells that have already been drilled.

According to *Bloomberg*, nearly 5,000 wells are sitting idle in the United States, keeping over 300,000 barrels per day underground. If those wells were all turned on at once, global oversupply would increase by about 20%.

This should be very worrying for the oil industry. After all, these wells will be turned on as soon as oil shows signs of recovery, keeping a lid on prices. Alternatively, some of the wells could be turned on if their owners run into financial difficulty and need the cash.

It is best to avoid energy stocks

I'm not saying that Crescent Point is in trouble, or even that its dividend will get cut. All I'm saying is that its shares are overpriced, especially when considering the fracklog.

The same holds true for other companies in Canada's energy sector—practically all of them need higher oil prices to justify their stock prices, and I just don't see that happening.

So, with that in mind, I'd search elsewhere for dividend stocks. The free report below has three solid ideas to get you started.

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1. Energy Stocks
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bensinclair