Why Is Crescent Point Energy Corp. One of the Most Shorted TSX Stocks?

Description

Short selling refers to the process of investors making money through a stock decline by borrowing shares then immediately selling them and buying them back later at a lower price. As a result, looking at the amount of shorted shares in a company—and changes in this figure—can be a telling indicator of investor sentiment.

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For the first half of May 2015 **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) saw the largest increase in short positions on the TSX, which should prompt investigation as to why investors are showing such negative sentiment towards Crescent Point. In Crescent Point's case, there has been very little news during the first half of the month that would prompt an increase in short selling, and in this case, it is important to take a look at the company's overall risk to determine if the high degree of short selling is warranted.

Solid balance sheet

Having a solid balance sheet is a key risk management factor in the oil and gas industry. Oil companies see production decline over time as reserves are depleted, and as a result, need to be constantly investing capital to find and develop new reserves to maintain production and revenues over time. Low debt provides a company flexibility to wait out low oil prices, maintain dividends, and take advantage of distressed companies through acquisitions.

In this regard Crescent Point is outperforming its peers. The company currently has a projected 2015 debt-to-cash flow ratio of 2.1, meaning its net debt is 2.1 times its current cash flow. This is compared with an average of 3 times for its peers. In addition, while the company has a net debt of approximately $3.5 billion, this represents only about 35% of equity, which is below peer averages and is indicative of the fact the company has been using equity issues to largely fund its acquisitions.

Most importantly, the company recently increased its credit facility by $1 billion to a total of $3.6 billion. With $1.8 currently used, the company is only 50% drawn on its credit facilities, which will provide significant flexibility going forward.

High-quality assets

Crescent point’s balance sheet provides it with the flexibility it needs to both survive and capitalize on low oil prices, and given that energy companies with low leverage perform better during oil price declines than those with high leverage, there seems to be little rationale to short Crescent Point either on the basis of its leverage, or as a proxy for a potential decline in oil prices.

Crescent Point also has an extremely high-quality portfolio of assets, which allows the company to generate strong returns in a weak price environment, which supports shares and gives Crescent Point an edge over its peers, further eliminating any rationale to short Crescent Point specifically as opposed to one of its competitors.

Currently, Crescent Point’s main assets are located in the Bakken, Shaunavon, and Uinta oil plays. These are high-quality assets that allows the company to generate strong returns on wells, while quickly replacing reserves and maintaining a huge inventory of well locations.

These high rates of return stem partially from extremely low break-even costs. In fact, in a recent **Bank of Nova Scotia** report examining break-even economics for all major North American plays, the Saskatchewan Bakken and Shaunavon plays had the lowest and second-lowest break-even prices, respectively. For Crescent Point, these are their largest and second-largest assets by daily production respectively.

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The Bakken play, for example, has an extremely short payback period, which allows Crescent Point to quickly recover its costs and use the cash to fund its other operations. The result of Crescent Point’s high-quality asset base is that the company has stronger netbacks than its peers, with anticipated netbacks of $28 per barrel, excluding hedging for 2015, compared with a peer average of only $16.

Little reason to worry about the increase of short interest

With an industry-leading hedging program, top-tier assets, a solid balance sheet, and little concerning company-specific news, there seems to be little risk specific to Crescent Point other than a larger downturn in oil prices, for which the company is well prepared compared with its peers.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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