At $22 Per Share, Is Crescent Point Energy Corp. in Bargain Territory?

Description

After showing signs of life earlier this year, oil prices have once again resumed their downward slide. As of this writing, the American WTI oil price is barely above US$50 per barrel, while the international Brent price is below US$60.

This has caused **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) shares to slide as well. The company's stock price has fallen by over 30% since mid-April, and, as a result, its dividend now yields a whopping 12%.

So, is Crescent Point in bargain territory? To answer that question, one must first ask whether there's more downside for oil prices.

Oil: it's not looking good

It's practically impossible to precisely predict the future of oil prices. But when looking at the fundamentals, it's clear that there's plenty of downside. On the demand side, the crisis in Europe and slowing growth from China do not bode well for oil prices. But the supply picture is far more worrying.

Saudi Arabia is pumping record amounts of oil, and has no plans to turn off the taps. Iran is set to increase exports now that nuclear-based sanctions against the country are scheduled to be rolled back. American producers have cut drilling, but have compensated by using better technology and focusing on more lucrative plays.

While speaking to *The Business News Network*, the head of trading at ETX Capital says he sees the Brent crude price dropping to US$50 before long. Even for a relatively efficient producer like Crescent Point, that would be bad news.

The downside for Crescent Point

When oil prices started free-falling late last year, numerous high-yielding energy companies began slashing their dividends. Investors feared that Crescent Point would be next, and the company's shares sank by roughly 40% in just three weeks.

But Crescent Point maintained its $0.23 monthly dividend and was able to do so for a few reasons. Besides being an efficient producer, Crescent Point has a solid balance sheet and a strong hedging program. The company also offers a generous incentive for shareholders to take their dividends in stock rather than cash.

But if oil prices sink once again, the worries about a dividend cut will re-emerge, and this time they'll be more legitimate. The company's hedging program won't provide the same benefits down the road since the company is no longer able to lock in high-selling prices for future production.

Even worse, a sinking share price means Crescent Point must issue more shares to those who elect stock dividends. The company has to pay dividends on these shares too, creating a vicious cycle that's tough to break in a bad oil environment. Within the next couple of years Crescent Point will likely need oil prices to recover if the company wants to maintain its dividend.

So, even though Crescent Point shares have sunk a long way already, the news could get a lot worse. Your best bet is to avoid the stock and look for dividends elsewhere.

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