



Is Crescent Point Energy Corp. a Takeover Target?

Description

WTI oil prices have plunged back below \$45 per barrel and Canada's oil patch is riddled with casualties.

Analysts now expect the weak market conditions to persist, and a number of the sector's popular names could be forced into the arms of their bigger and better-funded peers.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is traditionally known for being an aggressive buyer in the oil patch, and management is planning to continue that trend, but the company's enterprise value is getting down to the point where one of the industry's big fish might decide to gobble it up.

Let's take a look at Crescent Point to see if a buyout of the company would make sense.

Attractive assets

Over the past 15 years Crescent Point has built up an impressive portfolio of resource-in-place assets.

The company's primary focus has been on southern Saskatchewan and central Alberta, but management has also pursued opportunities in the Bakken plays in North Dakota as well as the Uinta Basin in Utah.

The company finished 2014 with an impressive 807 million barrels of oil equivalent (MMboe) proved and probable reserves. That number has since increased to 927.6 MMboe with the acquisitions made in the first half of this year. Based on current daily production, this translates into a reserve life index (RLI) of 15.5 years.

The proved reserves are 600 MMboe, which represent an RLI of 10.1 years.

In its July 2015 corporate presentation the company said it has “7,460 net locations in drilling inventory primarily within low cost, high-return basins.” That equates to 12 years of drilling activity is some of the industry’s top plays.

The company also offers industry-leading “break-even economics” for light to medium oil plays in both the U.S. and Canada.

Strong production growth

The assets are attractive, but the company also has a great history of increasing production. In 2005 Crescent Point had production of just over 12,000 barrels of oil equivalent per day (boe/d). That number is now 163,500 boe/d.

Strong management

Crescent Point’s management team is considered one of the best in the industry with a proven track record of growing reserves, production, and cash flow.

Valuation

At the time of this writing, Crescent Point has a market capitalization of \$9.3 billion. Net debt as of March 31, 2015 was \$4 billion, so you get an enterprise value of about \$13.3 billion.

Any unsolicited offer would have to be higher than that, but even at a 30% premium, you are looking at just \$17.3 billion for one of the industry’s premier asset portfolios.

That would be about \$105,810 per producing boe/d which is lower than the \$115,200 boe/d that **Whitecap Resources Inc.** paid earlier this year for Beaumont Energy Inc., a light oil producer in the Viking play in Saskatchewan. Crescent Point just paid \$76,000 boe/d for Legacy Oil and Gas Inc., another Saskatchewan-focused producer.

A \$17.3 billion takeover of Crescent Point would be a big deal, but the larger players in the industry could easily pull it off.

Will Crescent Point be bought out?

No one would have imagined a year ago that oil prices would be trading at \$45 per barrel at this point, so anything is possible in this volatile market.

Should you buy Crescent Point?

I wouldn’t buy the stock on the hopes of a takeout premium *or* for the 15% dividend, but the company’s assets are top notch and the balance sheet still looks good. If you think oil is finally bottoming, there is a case to be made for taking a small position at the current level.

CATEGORY

1. Energy Stocks
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1. Editor's Choice

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