



After Weak Earnings and a Dividend Cut, What Should You Do With Crescent Point Energy Corp.?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG), one of leading producers of crude oil and natural gas in North America, announced second-quarter earnings results and a dividend reduction after the market closed on August 12, and its stock has responded by falling nearly 7% in the trading sessions since. Let's take a closer look at the results and the dividend cut to determine if we should consider using this weakness as a long-term buying opportunity, or a major warning sign.

Low oil and gas prices lead to year-over-year declines

Here's a summary of Crescent's second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	\$0.53	\$0.24
Oil & Gas Sales, Net of Royalties	\$657.44 million	\$945.51 million

Source: Crescent Point Energy Corp.

In the second quarter of fiscal 2015, Crescent reported a net loss of \$240.45 million, or \$0.53 per share, compared to a net profit of \$98.59 million, or \$0.24 per share, in the same period a year ago, as its oil and gas sales, net of royalties, decreased 30.5% to \$657.44 million.

The company noted that these very weak results could be attributed to the steep decline in commodity prices over the last year, which led to its average selling price of crude oil and natural gas liquids decreasing 38.4% to \$60.09 per barrel, and its average selling price of natural gas decreasing 44.3% to \$3.02 per thousand cubic feet.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Adjusted net earnings from operations decreased 76.9% to \$40.38 million
2. Adjusted net earnings from operations decreased 79.1% to \$0.09 per share
3. Total oil and gas sales decreased 32.4% to \$776.16 million
4. Funds flow from operations decreased 17.7% to \$524.26 million
5. Netback decreased 23.8% to \$41.74 per barrel of oil equivalent
6. Net debt increased 40.2% to \$3.98 billion
7. Weighted average number of diluted shares outstanding increased 12% to 459.4 million
8. Total production increased 10.4% to 151,636 barrels of oil equivalents per day
9. Production of crude oil and natural gas liquids increased 9.9% to 137,742 barrels per day
10. Production of natural gas increased 15.6% to 83.37 million cubic feet per day

Crescent also made two very disappointing announcements. First, the company announced a 56.5% reduction to its monthly dividend to \$0.10 per share, effective with the August dividend that is payable in cash on September 15. Second, it is suspending its existing Share Dividend Plan (SDP) and its Dividend Reinvestment Plan (DRIP), so shareholders enrolled in either of these programs will begin receiving their regular monthly dividends in cash.

Should you buy or avoid Crescent Point Energy's stock today?

It was a very disappointing quarter for Crescent, so I think its stock has responded correctly by moving lower. However, I think all of the negativity surrounding its weak financial performance over the last few quarters is priced into the stock at this point, and I also think the market knew a dividend cut was coming, because its yield was over 15% before the reduction was announced. With this being said, I think its stock is at or near its bottom, and can be considered a turnaround play for two primary reasons.

First, I think commodity prices will slowly recover over the next 12 months, with the price of oil heading back towards about US\$65 per barrel and the price of natural gas heading back towards about US\$3.50 per thousand cubic feet, and this will lead to higher sales and overall profitability for producers like Crescent Point Energy.

Second, even though Crescent Point Energy reduced its dividend by nearly 57%, it still pays out \$1.20 per share annually, which its stock a very generous 7.2% yield at today's levels. I also think the new rate can be sustained for the long term, or until commodity prices recover.

With all of the information provided above in mind, I think Crescent Point Energy is one of the top turnaround candidates in the energy sector today. Foolish investors should remain cautious while slowly scaling in to long-term positions over the next couple of weeks.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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Author

jsolitro

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