



## Is Crescent Point Energy Corp. a Bargain at Under \$15 Per Share?

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) shares have been in free-fall over the past three months, falling by about 50%. In fact, its shares fell below \$15 for the first time since 2004. Consequently, Crescent Point's dividend now yields 8.5%, even though it was cut by 57% earlier this month.

So, does this make Crescent Point a bargain?

### The valuation

Crescent Point has had a busy year so far. In addition to the dividend cut, the company also made a major acquisition, buying Legacy Oil + Gas for \$1.5 billion. To help pay for this, Crescent Point raised billions of dollars through debt and equity sales.

As a result, Crescent Point now has roughly \$4 billion in net debt, up from \$3.2 billion at the beginning of this year. It also has nearly 500 million shares outstanding, an increase of 11% since January 1st. Thus, if you assume a \$15 share price, Crescent Point's operations are valued at roughly \$11.5 billion, including debt.

So, what can you get for \$11.5 billion? Well after the Legacy acquisition, Crescent Point now has just under one billion barrels of reserves in the ground. If you bought the shares, you'd be paying roughly \$12 for every barrel of reserves.

This is a very high price in this environment. Think about it this way: Crescent Point's operating costs totaled \$12 per barrel in the most recent quarter, and royalties per barrel came in at \$9. These numbers don't even include capital expenditures, which totaled \$330 million last quarter (or roughly \$24 per barrel).

So, with WTI at US\$40, Crescent Point's reserves certainly aren't worth \$12 per barrel, especially when considering the time value of money. The weak Canadian dollar does help a little bit, but not enough to make the shares undervalued.

## Why are the shares overvalued?

There are a couple of reasons why Crescent Point trades for this much.

One reason is the company's generous dividend. But this payout is in danger of being cut again, especially if oil prices sink further.

Secondly, many energy companies are in even worse shape. Thus, if a portfolio manager needs to hold at least some energy stocks, there's a good chance he'll switch into Crescent Point. This drives up the company's share price higher than it should be.

But the rest of us don't have such obligations, so there's really no reason for you to hold the shares. Your best bet is to look elsewhere, ideally outside of the energy sector altogether. The free report below is a great place to start.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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