



## Why 1 Of Canada's Top Energy Investors Is Buying Crescent Point Energy Corp.

### Description

On Tuesday, Sprott portfolio manager Eric Nuttall appeared on *The Business News Network* and outlined his top three picks in the energy sector. And Mr. Nuttall is worth paying attention to—in the five years he's managed the Sprott Energy Fund, he has outperformed the **S&P/TSX Capped Energy Index** by a total of 21.3 percentage points. Interestingly, the first company he mentioned was **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), a company he only started buying recently.

So, why does Mr. Nuttall like Crescent Point so much? We take a look below.

### A cheap share price

To put it bluntly, Crescent Point's shares have been absolutely hammered recently. In the past three months alone, the stock price is down by well over 50%. Mr. Nuttall thinks this has made Crescent Point "the most mispriced oil and gas stock that I can find." He says even the company's proved reserves are worth more than the company's market value.

So, by buying the stock, you get part of the proved reserves, all the probable reserves, and all the other properties essentially for free. Crescent Point is also trading at its cheapest multiple ever, at just 5.5 times cash flow. At that price, Mr. Nuttall believes there's plenty of upside to justify the risk.

### A reformed company

Crescent Point has received plenty of criticism in the past, and rightly so. The company's acquisition strategy, while ambitious, left the impression that management cared more about growth than shareholder value. These acquisitions were mainly funded by equity, thus diluting existing shareholders.

Likewise, the company's dividend was also fairly ambitious, and was partly funded by issuing new shares through its dividend reinvestment program (DRIP). When putting the two together, Crescent Point's share count took off, increasing by more than 100% over the past five years.

But the company seems to have reformed its ways. The dividend has been slashed, and is now more

sustainable. The DRIP has been eliminated. Management wants to internally fund acquisitions going forward. So, when taking a fresh look at Crescent Point, Mr. Nuttall sees a strong energy producer with a significantly depressed share price.

### **A big caveat**

Mr. Nuttall believes that oil prices are unsustainable, and he's expecting a WTI price of US\$55-60 next year. So, when he says that Crescent Point is undervalued and that it has a sustainable dividend, it is based on this big assumption.

Midway through the interview, Mr. Nuttall was pressed on what the company is worth if oil stays at US\$38, and he made a very insightful point: "At \$38 you don't buy an oil stock. So forget about if the dividend is sustainable—is the company sustainable? And are any companies sustainable at \$38? So that speaks to the lunacy of today's oil price."

Mr. Nuttall was making an argument that oil prices must go up from here. But at the same time, he pointed out the big risk of investing in a company like Crescent Point. And let's face the facts: there's a very real chance that oil prices stay depressed for quite a while.

### **CATEGORY**

1. Energy Stocks
2. Investing

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1. Editor's Choice

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

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### **Date**

2025/07/24

### **Date Created**

2015/08/27

### **Author**

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