



Is it Finally Time to Buy Crescent Point Energy Corp.?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is catching a tailwind after its dramatic drop, and investors are wondering if this is a good time to buy the stock. Let's look at the current situation to see if Crescent Point deserves to be in your portfolio.

Dividend safety

Management finally bit the bullet and cut the company's famous distribution. Crescent Point had been one of the remaining energy patch holdouts, but the plunge in WTI oil prices to \$40 was just too much to handle. The current monthly payout of \$0.10 per share still yields an attractive 8%, and that might be bringing in new investors who haven't taken a hit on the crash in the share price.

In its latest earnings statement Crescent Point said it brought in funds from operations of \$525 million during the second quarter. The company spent \$329 million on capital expenditures in Q2 and paid out \$325 million in dividends. The crash in oil prices since late June means third-quarter funds from operations will be significantly lower.

Crescent Point expects its realized oil price to drop by more than \$15 per barrel, or roughly 24%, for the second half of 2015. The 2015 capex budget has been reduced to \$1.45 billion. The company already spent \$886 million in the first half of the year, so that leaves just \$564 million for the remaining six months.

Production is still expected to average 163,500 boe/d. Oil prices are undergoing a relief rally, but WTI still trades at just US\$43 per barrel. Crescent Point said it has 54% of its oil production hedged at CAD\$88.00/bbl for the remainder of 2015 and 32% of 2016 production hedged at CAD\$83/bbl.

Given the reduction in capex and the current hedge positions, the new dividend should be safe through the end of the year, even if oil remains at current levels.

Value play?

Investors should be careful about getting too excited. A continued recovery in oil back towards \$50

would likely send Crescent Point shares soaring, and that is why investors are starting to move back into the stock.

The market still looks very volatile, and many pundits think the bottom might not yet be in. If oil reverses course again and heads back below \$40 per barrel, the recent gains could quickly disappear.

Takeover target

Crescent Point owns one of the most attractive asset portfolios in the entire energy patch. The company currently has a market capitalization of about \$7.5 billion. If you add in the net debt of about \$4 billion, you get a minimum takeover price of \$11.5 billion.

Any of the big players in the industry could easily pull this off, even at a 25% premium to the current price.

Should you buy Crescent Point?

I wouldn't buy the stock for the dividend, and the market still looks too volatile to back up the truck, but contrarian types who believe the oil bottom is already in might want to start a small position.

CATEGORY

1. Energy Stocks
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