Why Crescent Point Energy Corp. Surged by 10% on Monday

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) shares surged by more than 10% on Monday, thanks to a rise in the price of oil. What caused oil prices to spike? And is this price increase sustainable? Most importantly, is now the time to buy Crescent Point shares?

Why the price of oil increased

The WTI oil price rose as much as 9.1% on Monday, and there were two big reasons for this.

First of all, the Organization of Petroleum Exporting Countries (OPEC) signaled it may be willing to cut production, saying in a published report that it "stands ready to talk to all other producers." This comes as Russian President Vladimir Putin is set to meet with Venezuelan President Nicolás Maduro on Thursday to discuss oil prices.

Secondly, new data shows that U.S. oil production has been lower than originally forecast. The Energy Information Agency cut its estimates by between 40,000 and 130,000 barrels per day for the first five months of 2015, and also said that production fell by 100,000 barrels per day in June.

What happens next?

There is certainly reason for optimism. Many OPEC members are struggling with low oil prices, as are countries like Russia. Without a doubt, these nations have plenty of incentive to boost prices, even if it means cutting back on some production in the meantime.

There's even more promise from the EIA data, because it shows how U.S. producers are unable to cope with such low oil prices. Thus, output could keep falling as producers voluntarily cut back, or as funding dries up, or as companies go under.

But we shouldn't get ahead of ourselves.

A production cut by OPEC is very unlikely, partly because many of its members have a history of producing above their respective quotas. Furthermore, any cuts from OPEC could easily be filled by non-OPEC members, including the United States. And Saudi Arabia knows that any OPEC production cut will benefit Iran, its biggest geopolitical rival.

The new EIA data holds more promise, but once again we shouldn’t overreact. American oil producers have been cutting costs drastically, and many of them may be able to survive with sub-$50 oil prices.

What does this mean for Crescent Point?

Monday’s news was very positive for Crescent Point, and the company’s stock price increase was well deserved. But this remains a very risky stock for your portfolio.

To illustrate, the company expects its dividend to equal 100% of its profits next year. But this assumes WTI rebounds to US$60 per barrel, which is far from certain. And in future years, the efficacy of Crescent Point’s hedging program will gradually decrease, putting further pressure on the dividend.

Until then, the company’s dividend yields just over 7%, which isn’t much for a payout that has no real chance of increasing. Thus, if you really believe in oil, you’re better off buying an oil-linked ETF. And if you’re looking for solid investment options, you’re better off checking out the free report below.

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