



Is Crescent Point Energy Corp. Poised to Outperform?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has taken a beating along with its oil-producing peers, but the company has some unique characteristics that help it stand out among the pack.

Let's see if Crescent Point deserves a spot in your portfolio right now.

Capex and cash flow

Crescent Point recently updated its 2015 guidance in response to the drastic downturn in the oil market since the end of June.

Capital expenditures for 2015 are now set at \$1.45 billion. The company already spent \$886 million in the first half of the year, so that means Crescent Point is really tightening its belt.

The impressive part, if the company can pull it off, is the fact that production is still expected to average 163,500 boe/d.

Dividend safety

In the wake of the big dividend cut, investors are now looking at cash flow to see if the reduced distribution, which still offers an attractive 7% yield, is sustainable.

Funds from operations in Q2 2015 came in at \$525 million, but the company said it expects is average realized oil price to drop by more than \$15 per barrel through the second half of 2015. That means cash flow could drop by more than \$200 million per quarter.

The recent rebound in oil prices is going to help, and Crescent Point still has a substantial part of its production hedged. In the latest update the company said it has 54% of the remaining 2015 production hedged at CAD\$88/bbl and 32% of 2016 production hedged at CAD\$83/bbl.

The new distribution translates into about \$50 million per month. Assuming production comes in as

planned and the company actually only spends another \$564 million on capex for the remainder of the year, the company might actually cover a good chunk of its remaining 2015 outlays.

It would be great to see both capex and the dividend completely paid with funds from operations, but it doesn't look like that is going to happen unless oil prices see another big move to the upside.

Nonetheless, the dividend looks safe through the end of the year. As for 2016, it's anyone's guess at this point, especially with the significant drop in the hedging program.

Friendly Saskatchewan?

Crescent Point primarily operates in Saskatchewan. This is drawing a lot of attention to the stock because energy investors are looking for opportunities outside of Alberta, where the government just raised corporate taxes and said it plans to revisit royalty programs.

For the moment, the government in Saskatchewan is sitting back to see what happens next door, but investors shouldn't assume things won't change. Earlier this year the Saskatchewan government hit potash producers with a tax change, so the oil sector could be next.

Top pick in the patch

Crescent Point is still considered by many to be the top pick in the patch. The company certainly owns an attractive portfolio of assets and is one of the industry's most efficient users of capital.

If you believe oil prices have bottomed, there is a case to be made for buying the shares at the current level. Any further improvements in crude prices will push the stock higher, and the dividend looks safe for the near term.

However, there is still a lot of risk in the name. If oil heads back below \$40 again, the stock will get hit and could retest the recent lows.

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1. Editor's Choice

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