What Would $20 Oil Mean for Crescent Point Energy Corp.?

Description

Oil prices took another hit at the end of last week as **Goldman Sachs** released a report saying the market could see oil fall as low as $20 per barrel.

The news was the last thing oil producers wanted to hear, and the report could have far-reaching implications for Canadian energy companies.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is one of the most popular names in the patch and investors are wondering if it is safe to start a position in the stock.

Let's take a look to see how an oil plunge to $20 would affect Crescent Point.

Dividend risk

Crescent Point recently cut its beloved monthly dividend from $0.23 to $0.10 per share. It was one of the last remaining big payouts to get hit and some of Crescent Point's long-term shareholders are still shocked that it happened.

The new payout still yields a juicy 7.25%, but investors shouldn't count on the dividend surviving through the end of next year if oil drops to $20.

Crescent Point's strong hedging positions have allowed the company to maintain a higher distribution for longer, but that situation is going to change dramatically. In its latest update Crescent Point said it has 54% of its remaining 2015 production hedged at CAD$88/bbl and just 32% of 2016 production hedged at CAD$83/bbl.

For the remainder of this year, the distribution should be safe, but the payout could be at risk if oil prices don't improve through the first half of 2016.

Acquisition potential

Crescent Point is one of the energy sector's most aggressive companies, and a drop in oil prices to

$20 would certainly bring a large number of attractive assets onto the market.

Crescent Point has already completed two acquisitions in the past three months. CEO Scott Saxberg says the firm is taking a wait-and-see approach right now regarding other deals, but investors shouldn't expect management to sit back too long, especially if Goldman is right and oil is headed 50% lower than its current price.

Takeout target

Crescent Point itself could become a takeover target, especially if oil prices drop significantly and stay there for several months. The company has one of the industry's most attractive asset portfolios with high-quality, long-life, light and medium oil and natural gas properties primarily located in oil-friendly Saskatchewan.

A significant drop in the stock price could easily bring in one of the big players looking to scoop up prime properties at a very favourable price.

Should you buy Crescent Point?

The company has fantastic assets and a top-notch management team. If you believe Goldman is wrong and that oil prices have already bottomed, Crescent Point looks attractive at the current price.

If you think Goldman is right, and oil could drop as low as $20 per barrel, it would be best to stay on the sidelines. Goldman's reports carry a lot of weight, so I would avoid the stock right now.

CATEGORY

1. Energy Stocks
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aswalker