



3 Reasons Crescent Point Energy Corp. Will Outlast American Oil Producers

Description

As oil prices continue to languish, the energy sector has turned into a battle for survival, one in which only the strongest companies will remain intact. But here's the good news: as weaker producers disappear, the remaining players will benefit as oil prices return to more sustainable levels.

So, that leaves the all-important question: which companies are most likely to survive? Well, one strong candidate is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), a company well-known for its big dividend. Specifically, Crescent Point is well positioned to outlast its rivals just across the border. We take a look at three reasons why below.

The weak Canadian dollar

In the past 12 months, the Canadian dollar has declined in value by 17% relative to the American dollar. This has given the Canadian energy producers a nice edge over their U.S. counterparts. Crescent Point is no exception, with over 90% of production coming from Canada.

Granted, this isn't so much of an advantage in the short term. A majority of Crescent Point's debt is denominated in U.S. dollars, which becomes more expensive to pay back with a sinking loonie. But over the long term, a weak Canadian dollar may be just the edge that Crescent Point needs to beat the American producers.

Other costs

If the low Canadian dollar weren't enough, Crescent Point's Saskatchewan assets have some other nice cost advantages.

At the company's flagship Viewfield Bakken assets, the royalty rate totals only 11%. Across the border in North Dakota, royalties are a whopping 30%. Viewfield Bakken wells are also shallower than those in North Dakota, which leads to lower costs.

These factors have a big effect on return figures. Even if you assume a WTI oil price of US\$46 next year, practically all of Crescent Point's drilling should earn strong returns. Meanwhile in the United

States, producers are drastically cutting back on drilling, a sign that wells there simply aren't economic.

A clean balance sheet

According to *Bloomberg News*, U.S. shale producers are "drowning" in debt. In its index of more than 60 producers, total debt is equal to roughly 40% of their enterprise value. Sooner or later, many of these companies will simply collapse under the weight of their balance sheets, leading to a drop off in supply.

Crescent Point is in slightly better territory, with net debt equal to roughly 30% of enterprise value. And after the company cut its dividend, there is little sign that its balance sheet is a real burden.

Should you buy Crescent Point?

Not necessarily. Crescent Point's dividend yields 7%, and the company needs roughly US\$55 oil to sustain the dividend. So, if you're a long-term investor, you'd be making roughly 7% on your money even if oil prices rise by 21%. Thus, there isn't really enough upside to compensate you for the risk. Your best bet is to look elsewhere.

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