Crescent Point Energy Corp.: Should You Buy the Latest Pullback?

Description

At one point, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) rallied more than 50% off its August lows, but the stock has since pulled back, and investors are wondering if this is a good time to make a long-term bet.

Let's take a look at the overall situation to see if Crescent Point should be in your portfolio.

Dividend safety

Crescent Point is best known for being a top dividend stock. Until recently, it was also revered for its ability to maintain the payout during difficult times.

Many investors thought the massive $0.23 monthly distribution was rock solid. Analysts were pretty sure that wasn't the case, and it turns out they were right.

Now, the remaining distribution of $0.10 per month yields 7.6%, and the debate rages again. Is the dividend safe?

Crescent Point still has significant hedges in place, although that party is coming to an end. For the rest of 2015, 54% of production is hedged at CAD$88/barrel. Next year, 32% of the company's output is hedged at CAD$83/bbl.

For the remainder of the year, and at least the first part of 2016, the current dividend looks safe, but that could change if WTI oil drops below $40 again and stays there.

Growth opportunities

Crescent Point has always been an aggressive player in the patch, snapping up companies at a voracious pace to build reserves in its core areas of operation.

The strategy has been extremely successful because management is very good at buying companies at a fair price, and then increasing the reserves on the properties.

This year is no different. Crescent Point completed two acquisitions in the past four months, and while the company is now sitting back to see where the market goes next, investors can be reasonably certain that Crescent Point has its sights on more distressed prizes.

If the market recovers in the next year or two, Crescent Point could emerge as a much larger and stronger company.

Takeout play

Here's the other scenario.

Oil companies are a lot like fish in the sea, and Crescent Point could actually find itself on the unfamiliar end of a deal if the market really goes into a nosedive next year. The company has one of the industry's most attractive asset portfolios, and another significant plunge in the stock price could bring in one of the big fish to take it out.

Should you buy Crescent Point?

If you believe oil prices have bottomed, the stock is probably a good buy right now. I wouldn't buy it for the dividend or on the hopes of a white-knight takeover, but there is a case to be made based on the quality of the management team and the company's properties.

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