



## Is Crescent Point Energy Corp. a Smart Contrarian Bet?

### Description

Shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) are down more than 40% in the past three months and off 60% since this time last year.

Most investors are giving the entire energy industry a wide berth, but contrarian types are starting to kick the tires on some of the names they think are most likely to survive the rout.

Let's take a look at Crescent Point to see if it deserves to go into your portfolio right now.

### Dividend debate

Crescent Point's dividend was almost legendary in the oil patch. The company gained great respect during the financial crisis for keeping its payout steady and, until recently, it looked like management was going to defy the odds again.

Unfortunately, the troubles facing the energy sector this time around are very different, and Crescent Point had to throw in the towel on its dividend position, cutting the monthly payout from \$0.23 per share to \$0.10. The move was highly expected and the stock barely moved when the announcement was made last month.

Now, investors are wondering if the new distribution, which yields 8%, is safe.

Crescent Point's ability to hedge its production at favourable prices is one of the reasons the company has been able to maintain a dividend much longer than its peers.

For the moment, that's still the case. The company has 54% of its remaining 2015 production hedged at CAD\$88 per barrel (bbl). In 2016, things could get tight because the company only has 32% of production hedged at CAD\$83/bbl.

The current payout is probably safe until the first part of next year. If oil prices rebound before then, the distribution should be sustainable. Otherwise, investors might want to prepare for another cut.

## The strongest survives

The oil industry is a savage world. When times really get tough the weakest players either starve to death or get gobbled up by those who have healthy balance sheets and low operating costs.

It's actually a very efficient, albeit messy, system. The resources don't actually go anywhere, they simply move into the hands of stronger companies, and that tends to be good for the industry in the long term.

Crescent Point has spent most of its life at the top of the food chain, aggressively adding new properties to its portfolio at a dizzying rate. That trend has continued this year. In fact, Crescent Point is still digesting its two most recent acquisitions, and while management is stepping back to assess the landscape before deciding on its next victim, shareholders can bet the lull won't last for long.

But Crescent Point has also been weakened by the oil rout, and it too could become the target of one of the industry's giants.

As the stock price falls, Crescent Point becomes more enticing as a buyout target. The company's market cap is now down to \$7.5 billion. If you add in the \$3 billion in long-term debt, you get a minimum takeout cost of \$10.5 billion. Even if you throw in a 25% premium, it's an easy deal to do for a number of the industry's larger players.

Could it happen?

Crescent Point possesses a fantastic portfolio of properties in oil-friendly Saskatchewan, and that could attract a lot of attention very quickly as energy companies look for ways to diversify away from Alberta.

## Should you bet on Crescent Point?

If oil prices have bottomed, the stock certainly looks attractive right now. However, there is still too much uncertainty in the market to make that call, and a plunge in WTI oil back below \$40 will be bad news for Crescent Point's share price.

I think there are better places to put your money right now.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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