Crescent Point Energy Corp.: Is the Sell-Off Finished?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has really taken it on the chin over the past 12 months, and investors are wondering if recent strength is a signal that the bloodbath is finally over.

Let's take a look at the current situation to see if Crescent Point deserves to be one of your top rebound picks.

Stock slide

This time last year, Crescent Point's shares traded for $40 and the stock paid a generous monthly dividend of $0.23 per share. The steep plunge in oil prices was just beginning to take shape, but investors had no idea how bad things were about to get.

As its peers slashed their payouts, Crescent Point stood out as a rare defender of its dividend, and the share price held up reasonably well through the first half of 2015.

Then the wheels fell off.

After a rebound to $60/bbl, WTI prices plunged through July and August, eventually dropping below $40/bbl. Crescent Point's stock followed suit, sliding from $26 per share in early July to below $12 in late August.

Dividend situation

At that point, Crescent Point had to throw in the towel on the dividend. Management acknowledged the oil rout could go deeper and last longer than previously expected and decided to slash the monthly payout to $0.10 per month. The decision was a prudent one and was widely expected by the market.

Now, investors are wondering if the remaining distribution is sustainable.

When the dividend cut was announce in August, Crescent Point said 54% of the remaining 2015 production is hedged at CAD$88/bbl and 32% of 2016 output is hedged at CAD$83/bbl.

That should help offset current prices enough to ensure the dividend survives into the first part of 2016, but investors shouldn't count on the payout beyond that time frame, especially if WTI oil slides below $40 again.

Takeover target?

Crescent Point is known as one of the industry's most aggressive and successful companies when it comes to making acquisitions. Energy deals don't always pan out as expected, but Crescent Point's management team has a talent for buying strategic assets at reasonable prices and growing the reserves through efficient drilling programs.

In fact, the company acquired two more companies in recent months, and investors should expect to see the hunt for distressed assets continue, although Crescent Point says it is will step back from the market for the time being.

I think Crescent Point could actually become a target itself. The company has a very attractive asset portfolio based primarily in Saskatchewan, which is a big plus right now given the changes going on in Alberta.

There are enough big fish out there with the size and balance sheet strength to take Crescent Point out, and another steep slide in the stock price could very well set that process in motion.

Is it time to buy?

Crescent Point is one of the top companies in Canada's energy sector. If you believe oil has bottomed, this is probably a good time to start a position in the stock, but you might want to wade in slowly as the oil market still looks very volatile.

Any decision to buy the stock should be based on the quality of the assets and the management team, not on the 7% dividend or the possibility of a takeout premium.

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