Will Crescent Point Energy Corp. Buy or Be Bought?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has generated plenty of headlines over the past year. It all started in December, when the company was one of the few high-yielding energy names able to keep its dividend intact.

Then in late May, Crescent Point agreed to acquire Legacy Oil + Gas Inc. for $1.5 billion. It looked like a smart move at the time; Crescent Point seemed to be taking advantage of low oil prices to scoop up some prized assets. But then oil prices turned south again, and the company had to slash its dividend to $0.10 in August.

Fast forward to today, and the big story in Canada's energy patch is consolidation. **Suncor Energy Inc.** offered over $4 billion for **Canadian Oil Sands Ltd.**, and many analysts think this will set off a wave of M&A activity. Yet Crescent Point is being left out of the discussions.

Why is this the case? And is there a chance that Crescent Point will participate?

Will Crescent Point buy?

Throughout its history, Crescent Point has not shied away from acquisitions. In 2012 alone, the company spent $3 billion on buying up competitors.

Typically Crescent Point funded these purchases by issuing more stock. And for that reason, the company had minimal debt on its balance sheet at the end of 2014. Combine that with a strong hedging program, and Crescent Point was in much better shape than most of its peers.

But 2015 has been a different story. Crescent Point had to borrow money to pay its whopping dividend. Then when the company acquired Legacy, it issued another 19 million shares and took on another $1 billion in debt.

Put it all together, and Crescent Point's net debt increased by 25% in just six months. Its share count has also increased by 50 million. As a result, even the reduced dividend isn't guaranteed to survive intact over the long term.

So, Crescent Point simply cannot afford to make another big acquisition at this point, which is too bad, because now is certainly the time to buy. Put simply, the company's number one priority is its dividend.

Will Crescent Point be bought?

In this environment, with low oil prices wreaking havoc on many companies' balance sheets, there's no shortage of acquisition targets. But Crescent Point is not one of them.

There are a couple of reasons for this. First of all, the company is not especially vulnerable. In fact, it would have lots of cash available to pay down debt if it weren't for the dividend. For that reason, its stock is not as cheap as the more indebted producers.

Secondly, Crescent Point is still a very large company, so integrating it would be a major undertaking. By contrast, Canadian Oil Sands's only asset is its share in the Syncrude joint venture, a project in which Suncor holds already holds a stake.

At this point, if you're looking for a strong energy consolidator, or a company that will get bought out, Crescent Point is not for you.

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bensinclair