



Will Crescent Point Energy Corp. Survive the Oil Rout?

Description

The recent rally in oil prices is starting to look like another head fake, and investors are wondering if the latest pullback is a good opportunity to buy or a warning to get out.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is a long-term favourite among investors in the energy sector, so let's take a look to see how things could pan out.

Dividend situation

Crescent Point used to be known for its resilient dividend, but management finally had to cut the payout in August as a measure to protect the balance sheet.

The move was both prudent and highly expected. In fact, the share price barely budged when Crescent Point announced it was slashing the monthly dividend from \$0.23 per share to \$0.10.

The new distribution still offers an attractive 7% yield, but some pundits say that it could be at risk.

When Crescent Point gave its updated guidance, the company said it had more than half of its remaining 2015 production hedged at CAD\$88/bbl and a little more than 30% of next year's production hedged at CAD\$83/bbl.

That should ensure the payout is safe through the first part of 2016, unless oil really falls off the cliff again. Beyond mid-2016, WTI prices probably have to get back above \$50 and stay there if the new distribution is going to remain in place for the longer term.

Growth opportunities

Crescent Point is one of Canada's most aggressive energy companies. It has a long history of making strategic acquisitions at fair prices and then expanding the resources through efficient development. This year has been no different, with two deals completed in just the past six months.

Moving forward, investors should expect to see the company try to pick off more assets at fire-sale

prices. If oil eventually recovers, Crescent Point could emerge the downturn as a much bigger company.

Takeout odds

The other scenario sees Crescent Point becoming a target itself. The company owns very attractive assets in Saskatchewan, which is getting a lot more attention after the NDP win and subsequent tax hikes in Alberta.

At the moment, a deal would require some significant funds. Crescent Point has a market capitalization of about \$9 billion, and the company had \$4 billion in net debt at the end of the second quarter.

That would require a minimum of \$13 billion plus a hefty premium if the buyer wants to get a deal done quickly. The big players in the industry definitely have the balance sheet strength to do it, and Crescent Point will be even more appealing if the stock falls back toward the August low near \$12 per share.

Will Crescent Point survive?

If oil prices are near their bottom, Crescent Point will likely absorb a few more of its wounded peers and emerge as a bigger company. If oil takes a run at \$20 and stays there for a few months, Crescent Point could very well disappear into the arms of one of the majors.

Should you buy the stock?

Volatility remains in the energy space, and forecasts for the next move are all over the map. If you are an oil bull, the stock is attractive at the current price. Otherwise, I would stay on the sidelines, regardless of how appealing the dividend looks.

CATEGORY

1. Energy Stocks
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aswalker

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