3 Reasons Why Crescent Point Energy Corp. Is a Buy

Description

The sharp collapse in commodity prices continues to hit the energy patch hard and, when coupled with an increasingly bleak outlook for commodities, is creating considerable concern among investors. Despite the damage this has done to the outlook for energy stocks, it provides investors with the opportunity to acquire quality oil stocks at attractive prices.

One that stands out for all of the right reasons is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Let me explain.

Now what?

With Crescent Point's share price down by 40% over the last year, it is now an attractive contrarian investment for three key reasons.

Firstly, it has a high-quality portfolio of light and medium oil assets.

After investing heavily in a range of quality acquisitions in recent years, Crescent Point has amassed oil reserves totaling 717 million barrels. With only 85% of those reserves composed of light and medium crude, it is not exposed to the same risks as those energy companies that have invested heavily in natural gas or heavy crude.

Key among these risks is that natural gas prices will remain depressed for some time to come as global supplies continue to grow significantly, while the price differential between heavy crude and West Texas Intermediate (WTI) remains significant.

Secondly, Crescent Point's financial outlook remains strong.

Even with crude trading at less than half of the price it was trading at a year ago, Crescent Point has continued to perform well and has reported solid results. After allowing for impairment charges, Crescent Point reported a net profit for the first nine months of 2015. This is an impressive performance considering that the price of crude is less than half of what it was a year ago.

Crescent Point also continues to maintain a solid balance sheet with net debt only 2.1 times funds flow from operations despite it having grown by 32% over the first nine months of 2015.

Finally, Crescent Point's operations remain profitable even with crude trading at about US$40 per barrel.

Despite sharply weak crude prices, Crescent Point continues to report a solid netback, which for the first nine months of 2015 was $36.95 per barrel. This in part can be attributed to its aggressive hedging program that will start to unwind in 2016, but it can also be attributed to the low costs associated with Crescent Point's oil-producing operations.

You see, Crescent Point has a breakeven cost of US$34 per barrel, which means that with WTI trading at US$42 per barrel, its oil-producing operations continue to generate a solid margin.

So what?

It is easy to get caught up in the ongoing doom and gloom surrounding the energy patch and the outlook for crude.

Nonetheless, even with weak crude prices likely to remain in play for at least another year, Crescent Point continues to report solid operational results. This in conjunction with its quality assets, low operating costs, and juicy 7% dividend yield makes it an attractive long-term play on a rebound in crude.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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