



Should Crescent Point Energy Corp. Be Your Top Oil Rebound Pick?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is down more than 40% in 2015, and investors are wondering if the stock has become too oversold to ignore.

Let's take a look at the current situation to see if Crescent Point is a good choice to play a recovery in crude prices.

Asset strength

Crescent Point offers investors an interesting alternative to the big oil sands companies because it holds conventional oil assets in a variety of very promising locations, including Alberta, southern Saskatchewan, Manitoba, North Dakota, and Utah.

The company focuses on high-quality light and medium oil-in-place plays as well as natural gas deposits.

Operating in the different regions means Crescent Point can allocate capital to the assets that present the best opportunity at any specific time, whether that is due to operating costs, currency fluctuations, or changing political climates.

The company has increased reserves significantly through strategic acquisitions and successful exploration. Proved reserves are 600 million barrels of oil equivalent (boe) and the company has another 328 million boe in probable resources.

Production growth

Production has increased every year for more than a decade with 2015 annual output expected to average 163,500 boe/d. Crescent Point has identified 7,460 drilling locations on its properties, which translates into about 12 years of drilling inventory.

Hedging

Crescent Point managed to hold off cutting its dividend much longer than its peers because it had strong hedges in place to help offset lower oil prices. The company still has hedges in place for the next three to four years, including 33% of 2016 production hedged at CAD\$83 per barrel and 10% of 2017 production hedged at CAD\$81.00 per barrel.

Cash flow and dividend sustainability

Crescent Point says it needs WTI oil to average US\$40 or better in 2016 to meet its capital program and cover the dividend payout using minimal debt. Every US\$1 change in the price of WTI oil translates into about \$30 million in 2016 cash flow.

Crescent Point currently pays a monthly dividend of \$0.10 per share that yields about 7.8%. At the current market price, the company would have to take on new debt to cover the payout, so the long-term outlook for the distribution is not good unless WTI oil moves back above US\$40 and stays there.

Is Crescent Point a good bet?

If you believe oil prices are bottoming out right now, Crescent Point is a good pick to play a recovery. The company has low-cost production in very attractive resource plays and a strong track record of growing reserves. Crescent Point remains a popular choice with oil and gas investors and any rebound in oil prices would likely send the stock soaring.

At this point, volatility remains high in the energy sector, and investors should consider the dividend as a bonus when evaluating the stock. It's still a risky bet, but one that contrarian investors might want to consider if the shares drop much further.

CATEGORY

1. Energy Stocks
2. Investing

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