Should You Own Crescent Point Energy Corp. in 2016?

Description

According to an informal poll by *The Business News Network*, most experts are expecting oil prices to rebound next year.

That doesn't necessarily mean you should own energy companies. Oil will only recover if some firms cut production (or go out of business altogether), and you certainly don't want to own their stocks. Furthermore, even if an oil producer is making profits, it may not have enough money to sustain its debt load and dividend payments. And even if a producer can meet those obligations, its stock price may already be pricing in a robust recovery.

With all that in mind, we take a look below at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Crescent Point vs. the Americans

As we all know by now, the falling oil price has been caused mainly by surging production in the United States. And in order for prices to recover, some production will have to be shut down, either by American producers or by their Canadian counterparts. Will Crescent Point outlast the Americans?

The answer seems to be yes. Crescent Point is focused mainly on the Canadian Bakken formation in Saskatchewan, which has the best breakeven economics of any large light oil play in North America. This is partly due to the weak Canadian dollar as well as low royalty rates in Saskatchewan.

The numbers tell the story. Based on a US$50 WTI oil price, wells drilled in the Bakken formation generate a return of at least 57% with a payback period of eight to 19 months. Crescent Point should be able to significantly improve that number through further cost cuts. Those kinds of economics simply can't be found anywhere else.

Can the company sustain its dividend?

Judging by Crescent Point's slide deck, the company needs roughly US$50 oil prices to sustain its dividend over the long term. If oil prices get much lower, that's when you'll see the company pay out more than it's bringing in. Crescent Point can also move some of its hedging gains forward, but this would only work temporarily.

And US$50 is a reasonable assumption for the long-term price of oil. Many U.S. shale drillers are now able to earn decent returns at that price, and costs are constantly in decline. So over the very long term, it would be reasonable to assume Crescent Point can maintain its dividend.

Is the share price justified?

Here's the problem: Crescent Point can probably maintain its dividend. But chances are that this payout won't be raised for a long time. In other words, the best you can hope for is a steady dividend over the long term.

Thus, if you buy Crescent Point, you'd be fortunate to earn 7% (pretax) on your money, which is what the dividend yields. That's not a sufficient return for such a risky stock. You should look elsewhere in 2016.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/07/20
Date Created
2015/12/29
Author
bensinclair