Crescent Point Energy Corp. Has a Plan to Deal With Low Oil Prices

Description

As oil prices continue to languish, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has once again cut its capital budget. We take a closer look below at what this means for the company.

The budget

Crescent Point has set a capital-expenditure budget of $900 million to $1.3 billion for 2016, a decrease of 16-39% versus 2015 estimates. The reduction is part of an ongoing effort for the company to live within its means.

Remarkably, Crescent Point still plans to keep its production levels relatively constant. The company is expecting average production of 165,000-172,000 boe/d this year. By comparison, its production was approximately 172,600 boe/d in the third quarter of 2015.

Such numbers are possible because Crescent Point has been so successful at cost cutting. The company reduced average drilling and development costs by 30% in 2015 and, if low oil prices persist, a further 5-10% reduction is likely. All told, Crescent Point will only need to spend $20,000 to add each daily barrel of production. Such a number would have been unthinkable two years ago.

Crescent Point is also aided tremendously by its hedging program, which has locked in an average price of $83 for 34% of its 2016 production. The company also has the option of monetizing some of its 2017 and 2018 hedges this year.

Will it be enough?

If oil prices make a very modest recovery, then Crescent Point will be fine. Even at US$50 oil its wells generate very high rates of return, and its dividend should be safe.

But here's the problem: other oil companies are doing exactly the same thing. They are also finding efficiencies and reducing costs. As a result, they are also generally able to sustain production. And that will help keep a lid on oil prices.

Looking ahead

With Crescent Point, there is some good news and some bad news.

The good news is that its wells are some of the most economical in all of North America. Roughly three-quarters of its production comes from Saskatchewan, which benefits from favourable geology, low royalty rates, and the weak Canadian dollar. So even if oil prices remain depressed, other oil companies will likely have to cut output before Crescent Point does.

But here's the bad news: even though Crescent Point can drill for oil profitably, we'll need to see prices recover before the dividend becomes safe. And when looking at current trends, such an outcome looks very iffy. If you're looking for steady dividends, your best bet is to look elsewhere.

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
2016/01/08
Author
bensinclair