



How Crescent Point Energy Corp. Wins With a Weak Loonie

Description

On Tuesday the Canadian dollar fell below US\$0.70 for the first time since May 2003. Just for historical context, that was the same month that George W. Bush declared “mission accomplished” aboard an aircraft carrier. Clearly, it has been a long time.

The dollar's decline is having a big impact on Canada's largest companies. For example, importers are facing higher costs and may have a difficult time passing them on to consumers.

But there are also beneficiaries, and these include the country's beleaguered oil producers. Since oil is typically priced in U.S. dollars and costs are incurred in Canadian dollars, the weak loonie provides some much-needed relief. Of course, that leaves the million dollar question: Will it be enough?

We try to answer this question below.

Reasons for hope

Energy insiders like to point out that oil is bound to recover, since today's prices are not high enough to maintain current supply. But at the same time, prices will only recover when we start to see some serious production declines. So who will be the first to crack—the Americans or the Canadians?

Canada is typically a higher-cost place to produce oil, but the weak dollar is certainly narrowing the gap. And of the country's oil producers, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is one company that stands out as a beneficiary.

Even though Crescent Point has some production in the United States, about three-quarters comes from Saskatchewan, which is now one of the lowest-cost jurisdictions in North America. Better yet, the company has minimal exposure to Alberta's royalty review.

Crescent Point has reason to hope, and here's why:

Normally when a currency depreciates, exporters get a nice boost until order is restored. But Canada's other export industries—such as Ontario manufacturing—have some serious disadvantages versus other

countries. This means that as oil prices decrease, the Canadian dollar should fall as well, thus creating a natural hedge for Crescent Point.

Reasons for despair

Crescent Point may be winning an advantage versus American oil producers. But in other countries, the story is completely different. For example, the Russian rouble has tanked, as has the currencies of many oil-producing nations. So all of a sudden Crescent Point doesn't enjoy the same advantages it once did.

Secondly, even if Crescent Point does survive this costly war, shareholders still may suffer some big losses. The dividend looks to be on thin ice. And the current stock price assumes a fairly robust recovery.

So if you're looking to take advantage of a low Canadian dollar, be careful before jumping at an oil company like Crescent Point. There are certainly better options for your portfolio.

CATEGORY

1. Energy Stocks
2. Investing

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