Crescent Point Energy Corp.: Should Dividend Investors Buy This Stock?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has picked up a nice tailwind on the latest rebound in oil prices, and investors are wondering if this is good time to buy the stock.

Let's look at the current situation to see if Crescent Point should be in your portfolio now.

Cutting back

The extended rout in oil prices has forced energy companies to cut back on capital expenditures. Crescent Point announced its latest round of cost cutting on January 7.

The company now expects to spend between $950 million and $1.3 billion in 2016. This would allow for an average production rate of 165,000-172,000 boe/d, which would be a 1-5% increase over 2015.

The fact that the company can increase production despite the reduction in capital spending is good news for investors.

Crescent Point reduced its average drilling and development capital costs by about 30% in 2015, and management is looking for another 5-10% reduction this year.

Cash flow concerns

In the oil game everything comes down to cash flow, and Crescent Point says it needs WTI oil prices to average US$40 or better to cover its capital expenditures and pay the dividend. Meeting its targets at such a low level is possible because the company has about 34% of 2016 oil production hedged at CAD$83/bbl. Crescent Point says it could move an estimated $130 million of 2017 and 2018 hedging gains into 2016 if needed.

With the WTI oil price currently at US$30 per barrel, investors should brace for bad news on the distribution if things don't improve in the coming months, but there isn't an impending concern about the company's solvency. Crescent Point's debt level is manageable, and it finished 2015 with $1.4 in undrawn credit lines, so there is some wiggle room in case the latest price pop is just another head fake.

Nonetheless, oil prices really have to get back above $40 and stay there if the distribution is going to survive. The current monthly payout of $0.10 per share yields about 8.7%.

Should you buy Crescent Point?

At current oil prices dividend investors should probably take a pass, but value investors who aren't overly concerned about income might want to start nibbling and simply consider the distribution as a bonus.

Why?

The real appeal lies in the long-term value of the assets. The company owns some of the most attractive properties in the patch and has about 7,500 drilling locations lined up in its inventory with plans to drill just 630 wells in 2016.

As investors have seen in recent days, Crescent Point is a tightly compressed spring just waiting for good news to set it free. If you believe oil is finally bottoming out, this name is probably a good contrarian bet at the current price.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/07
Date Created
2016/01/25
Author
aswalker