Contrarian Investors: Should Crescent Point Energy Corp. Be Your #1 Energy Pick?

Description

Volatility continues in the oil space as every rumour about a deal to reduce output lights a little fire under crude prices and sends the beleaguered energy sector soaring.

So far, the surges have simply been head fakes, but contrarian investors are looking at the massive upside potential and wondering which stocks are likely to benefit the most in the event of a sustained recovery.

Let's take a look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see if it deserves to be a top pick.

Crisis management

Energy companies are cutting expenses in an effort to survive the oil rout, and Crescent Point is no different than its peers.

The company announced its latest round of cost cuts in January and now expects 2016 capital outlays to be between $950 million and $1.3 billion. That's a pretty big spread, and it shows investors that management has good flexibility in the capital program.

Production is expected to average 165,000-172,000 barrels of oil equivalent per day (boe/d) this year, a 1-5% increase over 2015 output. The fact that Crescent Point can maintain strong production with very low capital spending is important for investors to consider because this isn't the case with many producers in the industry.

These are certainly dark days for the oil patch, but the bloodbath in the energy sector has one positive aspect for Crescent Point and its peers. Large producers are able to reduce exploration costs in this environment because service companies are starving for work and willing to drop their prices. Crescent Point delivered a 30% reduction in drilling and development costs in 2015 and expects to squeeze out another 5-10% in 2016.

Dividend debate

The company finally gave up on its famous dividend last August, cutting the monthly payout from $0.23 to $0.10 per share. The current distribution still offers a yield of 8.75%, and many analysts say the payout could be cut again.

Crescent Point says it needs WTI oil to average at least US$40 to finance its planned capital expenditures and cover the dividend without putting too much pressure on the credit lines.

The company has about 34% of 2016 production hedged at $83/bbl and could monetize an estimated $130 million in existing 2017 and 2018 hedging gains if needed.

WTI oil remains stuck around US$30 and every day it stays there is one more potential nail in the coffin for the distribution. At this point, investors should be looking at Crescent Point as a value play and consider any dividend as a bonus.

Should anyone buy this stock right now?

If you believe oil is near its bottom, Crescent Point is a compelling play. The company owns some of the top properties in the industry and has a solid balance sheet to help it weather the storm. In its corporate presentation Crescent Point says it has about 7,500 drilling locations lined up with plans to tap just 630 of them in 2016. That means there is a ton of potential just sitting there, waiting for higher oil prices.

The larger integrated players are probably safer bets than Crescent Point, but they also offer less upside potential. On the other side of the fence, the producers with distressed balance sheets are probably too risky. Crescent Point might be the right balance between the two options.

Risks are certainly there for another move to the downside, so exposure should be kept to a minimum, but this stock could easily surge back above $30 on a sustained rally in oil, and it could happen very quickly.

CATEGORY

1. Energy Stocks
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