



Why Crescent Point Energy Corp. Is Finally About to Live Up to its Potential

Description

For years **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) was seen as one of Canada's best-in-class exploration and production names. The company has steadily grown its production every year from 2004 to present and has access to some of the highest-returning and lowest breakeven-cost assets in North America.

Despite growing its production rapidly every year (from nearly nothing in 2004 to 172,000 bp/d last quarter), Crescent Point's share performance before the oil-price crash was very disappointing. From 2010 to before the oil-price crash, Crescent Point shares basically traded in a range between \$35 and \$45 per share.

While it paid an impressive dividend yield, many investors were frustrated by the lack of share-price growth. This lack of growth has often been blamed on Crescent Point's strategy of growing through expensive acquisitions and funding them by issuing shares. There are signs, however, that a big shift has occurred.

Crescent Point's old strategy was unpopular

In a recent report, analysts at **TD Bank** said that Crescent Point has undergone a "180 degree strategy shift" and that this is a good thing. What was the old strategy? One of the main factors that made Crescent Point's production grow so rapidly was that the company was perhaps the most acquisition-focused oil company in the country.

According to Crescent Point, about half of the company's reserve additions since 2012 (about 447 million barrels of oil equivalent) have been from acquisitions. The problem was that Crescent Point wasn't paying for these purchases with its own cash flow. Instead, it mostly issued equity to fund the purchases, which has the effect of diluting shareholders and hurting earnings-per-share and production-per-share growth.

The effect is obvious by looking at the company's earnings-per-share and production-per-share growth. They have both lagged behind the company's actual earnings and production growth, because the share count grew at a greater rate than earnings.

Adding to this, Crescent Point Energy also had a DRIP (dividend re-investment program), which gave investors the option of taking their dividend payments in the form of shares instead of cash. This means Crescent Point had to issue even more shares to fund part of their huge dividend, which had the further effect of diluting shareholders.

While this strategy of issuing equity to fund the dividend and acquisitions helped the company conserve cash flow to pay its large dividend, it made many investors unhappy and was not attracting new shareholders to the company, which Crescent Point needed to see its share price grow.

Crescent Point is now shifting its strategy

This strategy seems to be changing now. In a recent conference call, Crescent Point's CEO stated that their focus would be more on per-share growth and operational execution. He also stated that they would be internally funding their business, and while they would still make acquisitions, they would be smaller acquisitions that the company would fund with its own cash flow.

In addition to this, the company also recently suspended its DRIP program and cut its dividend. The DRIP suspension means less shares being issued (which means shareholders will be diluted less), and the dividend cut will free up cash flow for either small purchases or to put towards capital expenses to drill the company's current inventory and grow production that way.

The company currently has a massive inventory of wells to drill (around 8,000), and these wells are located in very high-returning asset bases. Many of these asset bases (like the Viewfield Bakken) have quick payouts of less than two years, which means the company can recover its capital costs quickly and reinvest them into new production.

The company is also using new water-flooding technology to increase its production. By injecting water, this technology allows the company to get much more production out of the same well.

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