



Crescent Point Energy Corp.: Is it Finally Time for Contrarian Investors to Buy?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has taken a beating over the past two years, but contrarian investors are looking at the recent upswing in oil prices and wondering if the rout is near its end.

Let's take a look at the current situation to see if Crescent Point deserves to go into your portfolio.

Oil prices

Oil prices remain volatile, but the recent trend has been positive.

What's going on?

Much of the recovery is coming on the hopes of an output freeze from OPEC and other major suppliers as government officials from oil-producing countries feed the media with notions of planned or confirmed talks between Saudi Arabia, Iran, and Russia.

Many analysts remain skeptical that any concrete agreement will be reached, or honoured, but the possibility of a deal has put a floor under oil prices.

In fact, WTI oil has risen from its low below US\$27 back to a two-month high above \$34 per barrel.

The rally is providing some hope that a bottom has been reached, but storage facilities are near capacity in the U.S., and resilient producers continue to hang on, despite the challenging conditions.

A production freeze is not going to improve the situation quickly and voluntary output cuts are unlikely, so investors should expect more volatility in the near term.

Cost controls and production stability

Crescent Point has done a good job of managing expenses through the downturn. The latest budget announcement calls for capital expenditures of \$950 million to \$1.3 billion for 2016, significantly lower than last year.

The good news for investors is the fact that production is actually expected to rise 1-5% in 2016, coming in at 165,000-172,000 barrels of oil equivalent per day (boe/d).

Crescent Point also reduced drilling and development costs by 30% last year and expects to lower these expenses by a further 5-10% in 2016.

Dividend safety

Crescent Point cut its monthly dividend last summer from \$0.23 to \$0.10 per share. The payout still offers a yield of 7.2%, and investors are concerned that the distribution might be trimmed again.

Crescent point says it needs WTI oil to average US\$40 or better through 2016 in order to meet its capital and dividend commitments and avoid drawing down its credit lines.

As we enter March, oil has yet to come close to the \$40 mark in 2016, so the longer the market remains under pressure, the more likely it is that the distribution will get another haircut.

Investors should probably consider the existing dividend as a bonus when evaluating the stock.

Is this the time to buy Crescent Point?

Oil prices remain volatile, but there is a sense in the market that the darkest days have passed.

If you are looking for an oil stock that has a stable balance sheet and offers good upside potential, Crescent Point is certainly one of the top picks. If oil makes a move back above US\$40 per barrel, this name will soar, so contrarian investors might want to start nibbling while the shares are still cheap.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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aswalker

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