Why Now Is the Time to Invest in Crescent Point Energy Corp.

Description

With oil rebounding from the lows hit earlier this year, now is the time for investors to start considering taking a position in the energy patch while asset prices remain sharply undervalued. One Canadian energy stock that stands out for all the right reasons is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Let me explain.

Now what?

Despite the doom and gloom surrounding the outlook for crude and the energy patch in general, Crescent Point has weathered the crisis in good shape. This can be attributed to the company hedging a significant portion of its oil production, which helped to protect from it weak oil prices.

It has also been able to continue growing production despite slashing capital expenditures for asset development and exploration. For the first nine months of 2015, production grew by 17% compared with same period in the previous year.

More impressively, Crescent Point has managed to keep its variable costs low by cutting costs across its business. It now operates with cash costs of $24 per barrel, which falls to US$18 per barrel after adjusting for the exchange rate and a weak loonie, well below the spot price for West Texas Intermediate (WTI) of US$34 per barrel.

With such low cash costs, Crescent Point's oil production remains cash flow positive despite the ongoing weakness in crude.

Crescent Point continues to generate a solid netback–a key measure of profitability–for its oil production. For the first nine months of 2015, its operating netback averaged $34.50 per barrel.

Importantly, Crescent Point, in its 2016 guidance, expects to live within cash flow if WTI averages US$40 per barrel. While this is about 14% higher than the current spot price industry, insiders expect crude to edge higher over the course of the year.

Crescent Point's other key strength is that maintains a solid hedging position, which sees 34% of its 2016 oil production hedged at $83 per barrel. This will help to offset the impact of weak crude prices.

The only red flag for investors is if Crescent Point's current dividend yielding 6.5% is sustainable, because dividend payments continue to substantially exceed net earnings.

However, with Crescent Point expecting to operate within cash flow if WTI averages US$40 per barrel, there is every chance the dividend will survive uncut. It should be noted, however, that the current price for WTI is well below this, and if prices remain at these levels throughout 2016, there is a chance that Crescent Point could cut its dividend yet again.

Nonetheless, this shouldn't prevent investors from taking a position in what is one of the most attractive plays in the energy patch.

Crescent Point also remains focused on the long term and is working towards improving the sustainability of its operations; it has projects underway that should see its overall decline rate fall, boost the quality of its asset base, and improve capital efficiencies.

So what?

Oil stocks may have fallen into disfavour with investors because of weak oil prices, but with asset prices at depressed levels, quality oil companies such as Crescent Point are attractively priced at this time. This, along with the reasons discussed, makes Crescent Point a great contrarian play on a rebound in crude.

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