



If You Plan to Own 1 Oil Stock, it Should Be Crescent Point Energy Corp.

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has long received credit by analysts for the quality of its asset base and its feverish pace of acquisitions and production growth. The company had 275 boe/d production in 2001, and in Q4 2015 this had grown to 176,000 boe/d production, a staggering compound annual growth rate of 58%.

Despite this, many investors were frustrated with Crescent Point prior to the crash due to its fairly flat share price growth. Crescent Point made a strategic decision to focus on its dividend—offering a yield double that of its North American peers—as a way to attract a larger base of U.S. shareholders.

This meant that Crescent Point devoted most of its free cash flow to paying its dividend and even offered a DRIP program to fund part of its dividend through issuing shares. Crescent Point then funded its growth by making acquisitions and paying for them by issuing equity. While Crescent Point's production grew at an impressive 15% CAGR since 2010, its production per share only grew at 6%.

Crescent Point made a series of moves to shift its focus to per-share growth and away from the dividend, which means investors will now focus on Crescent Point's undeniable status as one of North America's top producers. There are three main factors that will attract investor attention and drive Crescent Point shares higher.

1. Crescent Point has some of the highest netbacks in the business

Netback is important to oil and gas investors. It is defined as the revenue per barrel minus the per-barrel operating, transportation, and royalty costs. In 2015 Crescent Point had an operating netback of \$25.57 per share.

Comparing this to Crescent Point's peers reveals its dominance. The average netback among Canadian junior and intermediate producers is \$15.78 per barrel, and Crescent Point has the highest netback of its entire Canadian peer group. This was at oil prices that averaged US\$49.00 in 2015.

Even more impressively, Crescent Point published information regarding cash netbacks (operating netback minus corporate costs and interest) at US\$30 per barrel and, in this situation, Crescent Point

would have the highest netback of a 57-peer group of North American producers.

This means Crescent Point earns more profit per each barrel that comes out of the ground, which means higher returns and quicker payback of capital costs per well.

2. Crescent Point has a high-quality asset base

Crescent Point's high netback flows from its extremely high-quality assets. A high-quality asset base produces more with lower costs, which enhances netbacks and improves the payback period (the time it takes for cash flows from a well to pay back the cost of the well, so capital can be redeployed into new wells).

One way to measure the quality of an asset base is by the payback period. **Bank of Nova Scotia** published data on the half-cycle payback periods of light oil plays in North America and found that eight of Crescent Point's nine plays are ranked in the top 20.

In fact, the top three plays are all areas that Crescent Point is active in, and Crescent Point's largest production area—the Viewfield Bakken—is the third-fastest payback play in North America.

3. Crescent Point is improving capital efficiency

Capital efficiency is basically the cost required to bring a barrel per day of production online, and better capital efficiency means higher returns. Crescent Point has been a pioneer in using what is known as waterflooding technology (which uses injection of water into a reservoir to boost the amount of oil that is recovered).

Through waterflooding, Crescent Point has been able to triple the amount of oil ultimately recovered from wells in its Viewfield Bakken asset base. This has the effect of reducing the rate at which production from a well declines, which ultimately means more daily production for a similar capital cost.

In addition, adding waterflooding costs about \$1.4 million for four wells, but it would add about 720,000 barrels of production, which puts the cost to add a barrel of reserves using waterflooding to a tiny \$1.94 per barrel (a lower cost than Saudi Arabia). This means waterflooding is lowering Crescent Point's capital costs to both add reserves and production.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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