Crescent Point Energy Corp.: Could This Stock Hit $40 in 2016?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is at a six-month high, and contrarian investors are wondering if the recent rally is the beginning of a much bigger move.

Let's take a look at Canada's former dividend darling of the energy patch to see if more upside could be on the way.

Tough times

Crescent Point is regarded as one of the top players in the oil patch, but the oil rout has taken a toll on the company and its investors.

The stock traded above $45 back in June 2014 and paid a monthly dividend of $0.23 per share. By January of this year, the ticker dropped below $12 and the dividend now sits at just $0.03 per share.

Income investors are certainly not happy because Crescent Point was widely believed to be the one company that could ride out the slump without trimming its payout. Value investors are probably relieved the dividend issue has been put to bed and are looking at the growth potential moving forward.

Positioned to thrive

Crescent Point has reduced its capital program for 2016 to $950 million, a 39% drop from the 2015 spending, but output is still expected to rise compared with last year. At an average production rate of 165,000 boe/d, Crescent Point believes it can live within its cash flow this year if WTI oil averages just US$35 per barrel.

Right now, WTI oil is at $US44 per barrel, so the cash flow situation is looking pretty good, and it gets even better if the crude recovery takes hold.

Crescent Point says it could deliver an additional $600 million in free cash flow if oil can averageUS$55 per barrel in 2017. At the moment, that looks very attainable, and contrarian investors aregetting excited.

A new approach?

Crescent Point's historical strategy involved using a big dividend as a carrot to lure new buyers of the stock, but the model didn't sit well with many industry watchers, especially investors south of the border, because the payout ratio regularly sat above 100%.

In essence, the company couldn't internally fund the payout.

Under the current model, free cash flow appears to be the priority, and that should bring new interest to the stock. If institutional investors start to line up, Crescent Point could move higher.

Should you buy?

The stock currently sits at $21 per share. A double from here by the end of the year would require a sustained gain in oil prices. I'm inclined to believe that won't happen, but some analysts are calling for oil to rally high as US$80 this year, so further upside is certainly possible, and the recent surge indicates how fast the stock can move on better prices.

Longer term, Crescent Point remains a solid pick. The company holds a fantastic portfolio of assets and has reduced its cost structure to the point where a decent move in oil prices will result in significant profits. If you believe oil has bottomed, Crescent Point should be on your radar.

CATEGORY

1. Energy Stocks
2. Investing

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