Crescent Point Energy Corp.: Should You Buy This Stock Today?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has surged 75% in a little more than three months, and investors are wondering if more upside is on the way.

Let's take a look at the current situation to see if this stock deserves to be in your portfolio.

A fallen star

Crescent Point used to be the dividend darling of the Canadian oil patch, and some pundits are still shocked the famous payout had to be cut.

What happened?

Crescent Point paid a juicy monthly dividend of $0.23 per share before the oil rout really picked up steam. As oil prices fell through the end of 2014, the stock plummeted, sending the yield on the distribution to nosebleed heights.

Fans of the stock debated whether or not the company would maintain the payout, as it did during the financial crisis.

To its credit, Crescent Point held out longer than most of its peers, but the second shoe dropped in the oil market last summer, and that was too much for the balance sheet to handle. Management wisely slashed the monthly distribution to $0.10 per share last August, and then cut it again to just $0.03 in March of this year.

The result?

Dividend investors have finally moved on to greener pastures, and value seekers are starting to kick the tires on this beaten-up stock.

Looking beyond the oil rout

Crescent Point is well positioned to benefit from a continued rebound in oil prices. The company has slashed its capital program by 39% to $950 million for 2016, but still plans to produce slightly more oil per day than it did in 2015.

As a result, the business should be able to live within its cash flow if WTI oil averages US$35 per barrel through this year. Oil prices have staged an impressive rally in recent months with WTI now up to US$46 per barrel, so things are looking pretty good, and the stock is back above $20 per share.

The news could get even better.

Crescent Point believes it could churn out $600 million in free cash flow if WTI oil can average US$55 per barrel in 2017. More volatility is probably in the cards through the end of 2016, but the target looks very feasible, and I don't think the market has priced it in yet.

Should you buy?

Crescent Point's focus on generating free cash flow is a change from the historic strategy, and the move should bring in a broader range of investors. If the stock becomes more popular with Americans, the ticker could see further strength, especially if WTI oil can break through US$50 per barrel.

Another boost could come from a takeover bid.

Crescent Point has traditionally been a buyer of other oil producers, but the company holds 14 years of drilling inventory on approximately 7,700 net drilling locations, and that could put it in the sights of a bigger player. Consolidation in the industry is going to continue, and I wouldn't be surprised to see one of the giants take a run at Crescent Point while the stock is still cheap.

If you believe oil has bottomed, Crescent Point still looks attractive.

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