Crescent Point Energy Corp.: Is This Stock Headed to $30?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has enjoyed a nice rally off the January lows, and investors are wondering how much upside might be left in the tank.

Let's take a look at Canada's former dividend darling to see what lies ahead.

Troubled times

Two years ago, Crescent Point's stock traded for more than $40 and paid a monthly dividend of $0.23 per share. Today, the dividend is just three cents and you can pick up the stock for $20.

To say the ride down has been painful is probably an understatement, especially for the army of dividend investors who believed the fat payout was bulletproof. I doubt the dividend will ever go back to its previous levels, but long-term investors who decided to stick with the stock could soon be rewarded in other ways for their loyalty.

Cost controls

Crescent Point has done a good job of reducing costs through the downturn, and the balance sheet remains in decent shape.

Capital spending in 2016 will drop 39% compared with last year, but the company says production won't be hit. In fact, average daily output is expected to come in slightly higher. This means Crescent Point should be able to live within its cash flow if WTI oil averages at least US$35 per barrel through 2016. At the moment, oil is at US$44, so the company is looking at some decent margins, even at depressed prices.

Bargain hunters have piled in on the hopes of more gains, and the stock is already up 50% in the past three months, but there could be a lot more upside on the way.

Why?

Crescent Point says it could generate $600 million in free cash flow next year if WTI oil averages US$55 per barrel. That isn't very far from the current price, and we still haven't crossed the halfway point in 2016.

If oil continues to drift higher, Crescent Point is going to start reporting some impressive numbers, and that could drive the stock back to $30 by the end of the year.

Should you buy?

Everything depends on the oil recovery. If prices suddenly swoon again, Crescent Point is going to take another hit, so I wouldn't back up the truck. However, if you believe oil has bottomed, Crescent Point is set up to deliver some big gains over the longer term, and it might be worthwhile to add the name on further weakness.

A possible takeover bid is another reason to consider the stock. Crescent Point has a world-class portfolio of properties with 14 years of drilling inventory and about 7,700 identified drilling locations. That's an attractive package when the world returns to higher energy prices, and I think one of the industry's giants could decide to buy Crescent Point while it is still reasonably priced.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/09/04
Date Created
2016/05/11
Author
aswalker