



## Why Current Oil Prices Are a Big “Go” Sign for Crescent Point Energy Corp. Shares

### Description

It has been a long time, but **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) may finally live up to the potential investors have long seen for the company. Crescent Point currently produces in nine core resource plays, and these plays are highly regarded as some of the most economical in North America.

The evidence speaks for itself.

Out of the top 20 North American oil plays, eight of Crescent Point's nine core areas are included (with the top three all being Crescent Point's areas) when ranked by a half-cycle payout at US\$30/bbl.

Half-cycle payout refers to how long a particular well takes to pay back its drilling and completion costs and is an extremely important measure because it indicates how quickly a company can recoup its capital, so it can be ploughed back into production. The shorter this period, the quicker a company can grow without using credit.

Unfortunately for Crescent Point, its strong economics have been overshadowed by weak crude pricing of late.

### Crescent Point is emerging from the rout a far better company

Crescent Point had one of the best asset bases in North America before the oil rout as well as a highly impressive track record of growing its production from 0 in 2001 to 165,000 barrels per day expected this year. Crescent Point has successfully grown production every year it's been in operation, including both 2014 and 2015.

Crescent Point shares, however, have basically traded in a tight range between \$37 and \$47 per share since 2010, despite Crescent Point effectively doubling its production over that period. This was because of Crescent Point's habit of funding its growth through equity issuances and using its cash flow to fund a large dividend (which was 30% funded by a DRIP program in 2014).

This strategy was unattractive to U.S. shareholders looking for organic growth. Recently, Crescent Point has implemented a total strategy shift that's focused on per-share organic growth. The company suspended its DRIP program, slashed its dividend by 86%, and is now focused only on internally funded acquisitions. Currently, the company expects to be able to fund its full capital program and dividend at oil prices of US\$35 per barrel.

### **Stable prices above US\$45 give Crescent Point a big growth runway**

Currently, Crescent Point has one of the largest light oil inventories in North America with 7,700 drilling locations available, equivalent to about 14 years. Crescent Point currently has about 23 billion barrels of oil in place and has only recovered about 3%. It estimates that by improving its recovery rate by only 5% in the next five to 10 years, Crescent Point can effectively double the size of its reserves by adding one billion barrels.

This type of enhancement in recovery rate is extremely likely given Crescent Point's successful use of waterflooding technology, which uses water to increase pressure in a reservoir, which in turn increases the amount of oil that can be recovered from a particular well.

Crescent Point is converting 120 wells to waterflood in 2016, and in the Viewfield Bakken region, a waterflood conversion (which costs about \$3.2 million for eight wells) would effectively double the recovery factor per section (from 19% to 40%), which works out to about 2.4 million barrels of oil being recovered per section compared to 1.1 million without the waterflood. This works out to a total cost of less than \$3 per barrel, which is extremely low.

Waterflood additions decrease the rate in which production from a well declines, which gives Crescent Point more production, more reserves, and higher returns for a very low cost. This means that going forward, Crescent Point will be able to ramp up production for less capital than in the past.

At US\$45 per barrel, Crescent Point estimates it would have \$300 million of free cash flow. In 2016 Crescent Point plans on spending \$950 million to bring on 165,000 barrels per day of production, but about \$100 million of this capital is being deployed in the back half of the year when it won't affect 2016 production.

Crescent Point estimates that if it were to deploy this production earlier, its production could easily hit 170,000 barrels per day in 2016, which shows how a small amount of capital can easily ramp up Crescent Point's production levels. With \$300 million of free cash flow available at current prices (and even more at higher prices), Crescent Point will have the ability to ramp up its production significantly.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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