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

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is hitting new 2016 highs, and investors who missed the rally are wondering if this is a good time to buy the stock.

Let's take a look at the former dividend star to see if it belongs in your portfolio.

Value play

Crescent Point used to be a favourite with income investors, but the blowout in the oil market forced the company to slash the famous payout to the point where dividend fans now have little interest in the stock.

Today, Crescent Point is attracting value investors.

The company has done a good job of reducing expenditures throughout the oil rout, and the balance sheet remains in solid shape.

Capital outlays for 2016 are expected to be almost 40% lower than 2015, but output will actually rise. As a result, Crescent Point says it can live within its cash flow as long as WTI oil prices remain above US$35 per barrel. That's at least $5 per barrel better than most other companies in the sector.

Oil is currently trading just shy of US$50 per barrel, so the margins are looking pretty good. If oil can move another 10% higher and hold that mark, investors could be looking at a windfall.

Why?

Crescent Point says it could generate $600 million in free cash flow in 2017 if WTI oil averages US$55 or better. At the moment, that is a reasonable target.

Should you buy?

Oil prices are holding their gains better than many market observers expected, especially after last week's news that OPEC failed to agree on a production cap.

If the recovery is set to continue, Crescent Point is poised to generate some serious free cash flow in the next few years, and that opens up a lot of opportunity. The company could begin to raise the dividend again, or it might take the funds to scoop up additional assets while the market is still cheap.

Another possibility is a buyout of Crescent Point by a larger firm before the stock gets expensive. Crescent Point owns a world-class portfolio of properties with 7,700 identified drilling locations. That translates into 14 years of drilling inventory.

The price of oil could still reverse course as it did in the back half of last year, so new investors have to be careful, but those who believe the oil recovery is just beginning should consider owning this stock.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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