



## Crescent Point Energy Corp.: Is This Your Best Oil Bet?

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has pulled back in recent weeks, and investors who missed the big rally earlier this year are wondering if this is the right time to buy the stock.

Let's take a look at the former dividend king to see if it deserves to be in your portfolio.

### Cost control

The oil rout has forced producers to go through their operations with a fine-tooth comb and eliminate non-essential costs.

Crescent Point has done a great job of this by squeezing suppliers and contractors and focusing investments on the low-hanging fruit in the asset base.

As a result, the company is at the point where it can live within its cash flow at WTI prices of US\$35 per barrel or higher. That's at least US\$5 per barrel better than most of its peers.

Cutting capex is a tricky issue in the oil game because you have to spend on exploration and development to replace production losses on existing reserves. For many companies with challenged balance sheets, the fall in oil prices has resulted in a death spiral. Lower revenue can force cuts to the capital plan, but that normally results in a drop in output, leading to a further hit on cash flow.

Crescent Point isn't in this situation. The company has reduced capital expenditures by 40% in 2016 compared with last year, but average daily production is actually expected to rise.

### Free cash flow

At the current oil price of US\$47 per barrel, Crescent Point is enjoying decent margins, but value investors are looking at the next leg up in oil prices and rubbing their hands together.

Why?

Crescent Point says it could generate \$600 million in free cash flow in 2017 if WTI oil averages US\$55 per barrel. That's certainly a reasonable target based on the rally we have seen in recent months, and investors could reap the rewards in a number of ways.

First, Crescent Point might decide to start raising the monthly dividend again. The company currently only pays \$0.03 per share, down significantly from the golden days of \$0.23 per share.

Crescent Point would certainly use the extra funds to ramp up output if oil prices look like they are on track for a sustained recovery, but the company could also acquire struggling players in strategic areas of the market while stock prices are still low.

### **Takeover target**

Crescent Point itself might become a takeover target. The company is sitting on some of the best land positions in the industry and has identified about 7,700 drilling sites. That translates into roughly 14 years of development activity.

As consolidation ramps up, it wouldn't be a surprise to see one of the big players take a run at this stock.

### **Should you buy?**

Risks remain and investors have to be careful in the near term. Last year oil looked like it was in recovery mode in the second quarter and then fell off a cliff through the back half of the year.

However, if you are an oil bull and want a name that is financially stable while still highly leveraged to rising prices, Crescent Point is an attractive pick.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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