



## Analysts Are Upgrading Crescent Point Energy Corp.: Here's Why

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has had some good news on the analyst-rating front recently. Analysts at **Toronto-Dominion Bank** upgraded the stock to an "Action List Buy," and analysts at Barclays upgraded the stock to "overweight," with both firms offering target prices significantly above current levels.

TD has a 12-month target price of \$31 on the stock (up from \$27 previously), and Barclays put a \$28 price target on the stock. This reflects 53% and 38% returns, respectively. TD's addition of Crescent Point to its Action List also reflects the fact that it sees Crescent Point as one of the most attractive names in its entire coverage universe.

Why the positive sentiment around Crescent Point?

The basic idea is that in a scenario where oil prices come in at futures strip pricing for 2017 (a fairly bearish average price of US\$49 per barrel), Crescent Point is set to generate strong free cash flow yield of around 2.5%. However, in a slightly more bullish pricing scenario of US\$60 per barrel for 2017 (which some would say is more realistic given the IEA's predicted oil-market deficit for the year), Crescent Point could easily see a free cash flow yield that is double this.

Since free cash flow is basically the leftover cash the company has after funding its capital expenditures and dividends, having lots of it means plenty of opportunity to drive shareholder returns.

### Crescent Point's free cash flow outlook

Before getting into why Crescent Point has such strong free cash flow generation potential compared to its peers, it is important to look at the company's free cash flow outlook. While it is impossible to say where oil prices will average for 2017, an oil price close to US\$60 would not be unreasonable.

U.S. production has fallen over one million barrels per day (bpd) from its peak, and with the U.S. being the new global swing producer, stable prices of about US\$60 per barrel will be required for U.S. producers to invest enough to both offset declining production as well meet growing demand.

According to analysts at TD, Crescent Point would be expected to generate about \$570 million of free cash flow in 2017, assuming oil prices of U.S\$60 per barrel, production of about 165,000 bpd (equal to Crescent Point's guidance), and capex of \$1.2 billion (\$250 million above Crescent Point's current guidance).

Crescent Point is expecting free cash flow of \$300 million this year, which would lead to cumulative free cash flow of \$870 million over the two-year period. It is important to note that these are conservative estimates on the production as well as the capex front.

Crescent Point produced an impressive 178,000 bpd in Q1 2016 and, as a result, was able to take \$100 million out of its Q2 capital program and move it to Q4, where it will drive production in 2017. The capital was not needed in 2016 for the company to reach its production target of 165,000 bpd for the year.

With strong capital efficiency, it is very likely that Crescent Point will see more production for less capex than these estimates are assuming, and 2017 production could very well be higher than 165,000 bpd for the \$1.2 billion TD is using in its estimates, or capex may come in much lower, which will only drive free cash flow further.

### **Crescent Point's free cash flow is driven by several factors**

Crescent Point made the move of reducing the dividend by over \$1 billion, which improves free cash flow. Most importantly though, Crescent Point has the combination of top-tier assets (industry-leading netbacks as well as time to pay back capital costs) and a well-developed waterflooding program, which reduces the amount of capital Crescent Point needs to bring on production.

Waterflooding pumps water into a reservoir, which increases pressure and allows for more production. This allows Crescent Point to triple how much oil it recovers in some cases for less than half the cost of a primary well. This is very supportive for free cash flow.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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