Contrarian Investors: Should Crescent Point Energy Corp. Be on Your Buy List?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is giving back some of this year's gains, and contrarian investors are wondering if this former dividend darling should be on their buy list.

Let's take a look at the current situation to see if this is the right time to add the stock to your portfolio.

Damage control

Crescent Point is doing a good job of navigating the storm in the oil market.

The company has leaned on contractors and suppliers to secure better pricing and has reduced overall production costs to the point where the business can live within its cash flow this year if WTI oil trades at US$35 or better.

Many of Crescent Point's peers need WTI oil to be at least US$40, so the low-cost structure says a lot about the quality of the assets and management's ability to run a very lean ship when times get tough.

In order to preserve cash, the company also reduced its famous monthly dividend from $0.23 per share to $0.10, and then lowered it again to the current payout of $0.03 per share.

Production growth

Crescent Point cut its capital costs by 30% last year. That kind of reduction often results in a nasty drop in production, but the company actually expects its daily average output to rise in 2016.

In fact, Q1 production hit a record 178,241 barrels of oil equivalent per day (boe/d), a full 16% increase over Q1 2015.

Balance sheet

The company's balance sheet remains in good shape with no material near-term debt maturities. Crescent Point finished Q1 with $1.3 billion in available credit capacity, so liquidity is not an issue.

Free cash flow

Crescent Point's low cost base is generating some solid margins in the wake of the rebound in oil through the first half of the year. The company says it could deliver $300 million in free cash flow in 2016 if WTI oil can average US$45 per barrel.

For 2017 the current planning would see production maintained around 165,000 boe/d, and management expects to reach a balance between cash inflows and outflows with WTI oil at US$45 per barrel.

Resources

Crescent Point owns some of the best properties in the industry. The assets are high netback, large oil-in-place resource plays with strong growth potential. To date, the company has already identified 14 years of drilling inventory.

Should you buy?

Everything depends on your outlook for oil. Right now the market is looking like it might repeat last year's second-half plunge, so I wouldn't buy any oil company in the near term.

However, if you are a long-term oil bull, Crescent Point deserves to be on your radar, and any meaningful pullback could be an opportunity to add the stock to your contrarian portfolio.

CATEGORY

1. Energy Stocks
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