3 Critical Numbers From Crescent Point Energy Corp.’s Q2 Report

Description

Leading Canadian conventional oil and gas producer **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) recently reported a pretty solid second-quarter report, all things considered. While weak oil prices weighed on funds flow, which was down 31% year over year on a per-share basis, production was up 10%. However, as important as those numbers were, three metrics really stood out from its second-quarter report.

Operating expenses were $40 million under budget

The slump in the energy market drove the price Crescent Point realized for its oil and gas production down 20% and 43%, respectively, over last year’s second quarter. However, the company was able to mute some of that impact through its cost-reduction initiatives. As a result of those cuts, the company’s operating expenses totaled $331 million through the first half of the year, which was $40 million below budget.

The company anticipates capturing additional cost savings in the second half of the year, though it does expect its costs to rise due to planned maintenance, turnarounds, and other expenses. Still, it projects operating expenses to end the year $50 million below budget.

$278.2 million in excess cash flow

The company’s cost-reduction efforts enabled it to generate more cash flow than anticipated. In fact, unlike most oil producers that are just trying to run at cash flow breakeven right now, Crescent Point generated a substantial amount of cash flow last quarter. After paying dividends and funding capex, it had a whopping $278.2 million left over.

That said, a big reason why it generated so much excess cash flow is that it deferred $100 million in first-half capex to the second half of the year. That was partially a function of lower well costs. However, the company also delivered robust well results in the first quarter, which allowed it to hold off on additional wells last quarter.

Further, the company believes that pushing this capex to the second half will enable it to capture additional cost reductions, allowing it to get even more out of this capital as it heads into 2017.

$211.7 million in acquisitions

Because it is generating a lot of excess cash flow, Crescent Point is in a stable financial position right now. That gives it the ability to take advantage of the currently weak market to go on the offensive and make acquisitions. While it did not complete any transactions during the second quarter, it announced that it made three deals after the quarter closed.

One purchase boosted its growth potential in the Flat Lake resource play by adding 300 additional well locations. Meanwhile, another deal added low-decline conventional waterflood assets in Saskatchewan. The final transaction was an asset sale; the company sold $31 million of non-core assets in northwest Alberta.

Overall, the net cash outlay for these deals was $211.7 million, which Crescent Point funded with the excess cash flow it generated during the second quarter.

Even after those transactions, Crescent Point has plenty of liquidity to pursue additional deals. The company currently has about $1.2 billion in liquidity on its credit facility and relatively low leverage at 2.3 times net debt-to-funds flow from operations. That available capital will likely be put to good use as the company takes advantage of opportunities to grow amid the downturn.

Investor takeaway

While the current oil market is having an adverse impact on the entire industry, Crescent Point is making the best of the situation. Its ability to push its costs down preserved its stable financial position. Because of that, it has been able to take advantage of the downturn and go on the offensive to make acquisitions, which positions it to accelerate growth when conditions improve.

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