3 Reasons to Buy Crescent Point Energy Corp.

Description

Weak oil prices have lasted far longer than many analysts, industry insiders, and market pundits predicted way back in late 2014 when they began their precipitous slide earthward. While there have been many victims with bankruptcies and debt restructurings, it has been a welcome wake-up call for an industry awash with debt and high operating costs.

One upstream oil producer that has proven time and again the strength of its operations, along with its ability to adapt to the hash operating environment, is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). These attributes make it one of the best means of playing the long-awaited rebound in crude.

Now what?

Firstly, Crescent Point's costs continue to fall.

The ability to control costs in a difficult operating environment is a particularly important attribute, and Crescent Point has consistently shown it can push costs down while growing production.

For the second quarter 2016, operating expenses were just under $11 per barrel–a 7% decrease compared with the same period in 2015, which can be attributed to reduced chemical, labour, and service costs. Transportation costs were also down, falling by 6% year over year; this is attributable to lower trucking costs and the company's investment in pipeline gathering systems.

Secondly, despite a sharp reduction in expenditures on exploration and development, Crescent Point's production continues to grow.

For the second quarter, total production grew by 10% compared with the same period in 2015 because of earlier acquisitions and the success of its drilling program. This is an important aspect of Crescent Point's operations, particularly in an operating environment dominated by low oil prices and reduced capital expenditures.

You see, the protracted slump in crude has forced upstream oil producers to savagely slash expenditures in order to shore up their balance sheets and preserve cash flow.

As a result, many have sharply reduced funding for oil exploration and well development, causing their production to remain flat or even decline significantly.

In the case of heavily indebted **Baytex Energy Corp**., second-quarter production plunged by 17% year over year. Given the lengthy period needed to ramp up exploration and well development, it may be some time before oil output starts to grow. This leaves Baytex at a considerable disadvantage compared to companies such as Crescent Point when oil prices strengthen.

Finally, Crescent Point continues to maintain a solid balance sheet with manageable levels of debt and high levels of liquidity.

This is a particularly important at this time and is a key reason why it has not been as adversely affected by weak oil prices, as heavily indebted companies such as Baytex or **Penn West Petroleum Ltd.** have.

In fact, and quite surprisingly, given the financial pressures caused by the current operating environment, Crescent Point's net debt by the end of the second quarter was 5% lower than it was at the end of 2015.

Its liquidity is also high; it had undrawn borrowing capacity of $1.4 billion and $4.2 million in cash at the end of the second quarter. This leaves it well positioned to weather the slump in crude and even consider making further accretive acquisitions if appropriate opportunities arise.

So what?

Crescent Point, unlike many other upstream oil producers, will not only survive the current oil slump in good shape, but will emerge in a better position as it is capable of taking full advantage of higher oil prices. This can be attributed to its judicious use of capital, its solid balance sheet, and its growing production.

With some attractive valuation metrics, including an enterprise value of nine times EBITDA coupled with the inevitability of higher oil prices over the long term, it is an appealing time to invest.

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