Crescent Point Energy Corp.: Time to Buy the Dip?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is now trading at lows not seen since February this year.

Let's take a look at the current situation to see if this stock deserves to be in your portfolio.

Big stock issue

Crescent Point recently closed its September 8 bought-deal offering of 33.7 million new shares at a price of $19.30 per share for gross proceeds of about $650 million.

Management appeared to have timed the sale well, but banks and investors who'd bought the stock are probably kicking themselves right now. Crescent Point is currently trading at $16.50.

The net proceeds are being used to fund a $600 million boost in the company's capital plan for the remainder of this year and 2017.

Expanded drilling program

Crescent Point will spend an extra $150 million in Q4 2016 and bump up its 2017 capital budget by $450 million to $1.4 billion.

Management says it has a large drilling inventory that is highly economic with WTI oil at US$45 per barrel.

The positive side of the announcement is the fact that management is boosting its capital spending after an extended period of cuts. This will increase the company's output, and investors should see 2016 production come in at 167,000 barrels of oil equivalent per day (boe/d). The previous guidance was for 165,000 boe/d.

Next year, Crescent Point expects production to be 175,000-177,000 boe/d, representing an annual growth rate of at least 5%.

Crescent Point is one of the few producers that managed to boost production while cutting its development expenditures over the past 12 months.

Oil outlook

WTI oil averaged about US$45 per barrel in Q2 and has remained in a tight trading range for most of the third quarter. Much of the support in recent months has come from rumours that Saudi Arabia, Russia, and Iran are planning to agree on a production freeze.

The concerned players certainly want to see higher prices and regularly say they support an agreement. While all this is going on, the Saudis are pumping oil at record levels, and Iran is ramping up output in the wake of the removal of sanctions against the country by the international community.

As such, it is unlikely a deal will be reached, and few analysts expect the players to honour an agreement even if one is announced.

With global growth forecasts being reduced and surplus oil production still an issue, there is little reason to believe oil prices are going to catch a tailwind in the near to medium term.

Should you buy Crescent Point?

Crescent Point has a stable balance sheet and owns some of the best properties in the oil patch. If you are a long-term bull on oil, this stock deserves to be in your portfolio.

However, given the near-term uncertainty in the oil market, I would keep the exposure limited. There could be a better entry point in the coming months.

CATEGORY

1. Energy Stocks
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1. NYSE:VRN (Veren)
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