Contrarian Investors: Is it Time to Buy Crescent Point Energy Corp.?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has pulled back from its 2016 highs, and investors are wondering if this is a good opportunity to pick up the stock.

Let's take a look at the current situation to see if Crescent Point belongs in your portfolio.

Oil market

Oil is taking another run at US$50 per barrel, and that has investors diving back into the producers, but many pundits are skeptical the rally is for real.

Why?

The oil ride has been a wild one over the past two years with WTI prices falling from US$100 per barrel in 2014 to below US$30 at the start of 2016. A surge through the spring saw the price top the US$50 mark, but the rally ran out of steam over the course of the summer months.

Most of the support this year has come from rumours that global producers are going to freeze output, and that theme continues.

In fact, OPEC announced an agreement last week that will, in theory, reduce output by as much as 750,000 barrels per day compared to the August numbers.

Positive comments are certainly more helpful than public bickering, but the market has seen this before, and many analysts doubt the big players are going to honour any agreement.

Iran is exempt from the new cap and is expected to continue ramping up output to replenish its coffers after the recent lifting of embargoes against the country.

Saudi Arabia will have to bear the brunt of a large part of the cuts if the agreement is going to be effective. That might be difficult as the government continues to face serious budget deficits.

As a result, investors can be forgiven for not being overly convinced the targets will be met.

If OPEC manages to meet its reduction target and WTI oil moves above US$50 per barrel for any period of time, North American production will likely start to ramp up again and that could derail the price recovery.

As such, there is little reason to believe oil is headed significantly higher in the near to medium term.

Is Crescent Point attractive?

Crescent Point has done a good job of reducing costs through the downturn, while improving output.

The company recently closed a $650 million bought deal share issue and is using the funds to cover a boost in the capital program, which should result in a 5-8% increase in output next year.

Crescent Point’s balance sheet remains in good shape, and the company has adequate liquidity to make more strategic acquisitions while the sector is still under pressure.

Management has already amassed one of the best land portfolios in the industry and identified nearly 8,000 drilling locations. That’s about 14 years of inventory.

Is it time to buy?

If you believe the worst is over for oil, Crescent Point should be a top pick.

Given the volatility in recent months, however, I wouldn’t back up the truck just yet. Investors should probably start with a small position and look for further pullbacks to pick up more shares.

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1. Energy Stocks
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POST TAG

1. Editor's Choice

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