



Crescent Point Energy Corp.: Are Big Gains Ahead?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has fallen significantly from its glory days, but contrarian investors with an eye for value are starting to kick the tires again.

Let's take a look at the former dividend darling to see if it deserves to be in your portfolio.

Tough times

Crescent Point was famous in the Canadian oil patch for having a dividend that could ride out any storm. The company maintained the payout during the Great Recession and held on for as long as it could through the current rout.

Unfortunately for the dedicated investors who stuck around, Crescent Point had to throw in the towel last summer and reduced its monthly payout from \$0.23 per share to \$0.10 per share. As things went from bad to worse, management pulled out the knife again and cut the distribution to \$0.03 per share.

With a current yield of 2%, Crescent Point is no longer on the radar of income investors, but the plunge in the stock price is stirring up interest with the value crowd.

What's the attraction?

Crescent Point has taken a beating along with the rest of the broader energy group, but the company is actually weathering the storm quite well.

Despite a significant cut in capital spending, Crescent Point managed to increase production this year. This is rare in the energy patch and attests to the quality of the resources Crescent Point has available to tap during tough times.

With the recovery in oil now looking like it might hold up, Crescent Point is starting to increase its expenditures again and recently found eager buyers for a \$650 million share issue.

The company will spend \$150 million of the funds in Q4 and use an additional \$450 million in 2017,

taking next year's capital plan up to \$1.4 billion.

The result should be a bump in production of at least 5%.

Strong balance sheet

Crescent Point continues to maintain a strong balance sheet and had \$1.4 billion in unused credit facilities available at the end of the second quarter.

This gives the company some firepower to make strategic acquisitions as weaker players start to run out of money.

Impressive resource base

Crescent Point is sitting on some of the best land packages in the industry.

The company has already identified 7,700 drilling locations, representing about 14 years of inventory. As oil prices improve, management will allocate funds to the best development options.

Should you buy?

This stock has huge upside potential when oil finally recovers. The trick for investors is to figure out when that will happen.

Oil prices remain volatile, and most of the recent gains are based on the assumption that OPEC members will actually follow through on a coordinated production cut. Analysts don't have much faith the member countries will honour the commitment, so there is a risk that oil could pull back significantly in the near term.

If you are a long-term oil bull, Crescent Point should be near the top of your buy list. At this point, though, I would keep the position small and look for further weakness to pick up additional shares.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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