Crescent Point Energy Corp.: Is it Safe to Buy Today?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is a popular Canadian oil producer that has fallen on hard times.

Let's take a look at the current market situation to see if contrarian investors should own this stock right now.

Oil outlook

The price of WTI oil bottomed out below US$30 per barrel in January of this year. At the time, predictions were all over the map as to the next move; pessimists were calling for a plunge to US$10, and bulls were saying a bounce back to US$70 could be in the cards over the next 12 months.

The bulls have been in the driver's seat for most of the year, as oil rallied back above US$50 per barrel by May and has traded above $40 since that time.

This has some investors thinking the worst might be over, but the market remains at risk.

Why?

Rumours that OPEC members are going to freeze or cut their production levels are the key drivers behind the 2016 price gains. The discussions sparked the initial rally during the winter, and carefully timed comments provided support again when oil started to pull back in July.

Recently, OPEC released a statement saying the group is committed to reducing output by 200,000-700,000 barrels per day and hopes to hammer out the details of how that will happen before the next meeting, which is scheduled for November 30.

As soon as the news hit the wires, investors jumped back into oil stocks, but the optimism might be a bit hasty.

Iraq had barely left the late-September meeting in Algeria when it started to get cold feet, saying it would walk away from any deal if it doesn't like the production numbers that are used to determine how much output it would have to cut.

Venezuela and Iran are also voicing similar concerns.

Determining the exact daily production of each OPEC member is a difficult task, and each country is going to want its stated number to be as high as possible to minimize the actual impact once a cut is agreed.

Iraq is the second-largest producer in the group, so the risk of a deal falling through is significant.

If OPEC manages to announce an agreement, most analysts have little faith the terms will be respected. As such, betting on a sustainable oil rally right now based on an OPEC production cut is a risky move.

Crescent Point

Crescent Point has done a good job of navigating the oil storm and is positioned well to benefit when the market finally recovers.

The company has raised output while reducing capital expenses and recently found buyers for $650 million in new stock. The additional funds will go towards expanding development on targeted sites, which should result in further production gains of at least 5% in 2017.

Crescent Point also has access to $1.4 billion in unused credit facilities, which gives the company ample firepower to make strategic acquisitions while the oil market remains weak.

Should you buy?

If you believe oil has bottomed, Crescent Point offers strong upside potential and deserves to be in your portfolio.

Having said that, I'm not convinced the OPEC deal will stick, so we could be in for another down-leg in oil in the coming months. As such, investors might want to keep the position small today and look for dips to add more shares.

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Date
2025/09/02
Date Created
2016/10/17
Author
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