Why Now Is the Time to Buy Crescent Point Energy Corp.

Description

Crude continues to gyrate wildly in a market that is overly sensitive to both good and bad news. It was only a month ago that it rallied, breaking the US$50 market for the first time in over year. Now it is in full retreat, falling to US$45 per barrel after the biggest reported oil inventory build in 34 years.

Nonetheless, there are signs that the market has started the long-overdue process of rebalancing, and the recent retreat in energy stocks makes now the time to invest in the energy patch. One name that stands out is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which, because of weak crude, is now down by 13% over the last month, offering a handy entry point for investors.

Now what?

Unlike many of its peers, Crescent Point entered the oil slump with a solid balance sheet and high-quality portfolio of light and medium oil assets. This has been a boon for the company.

You see, the considerable weighting to light and medium oil ensures that it is not impacted by the wide price differential that exists between Canadian heavy crude and West Texas Intermediate. Even after narrowing over the last year, Canadian heavy crude still trades at a 31% discount to West Texas Intermediate, and this was a key reason for the sharp deterioration in balance sheets and cash flows of many heavy oil producers.

More importantly, Crescent Point's management bit the bullet and slashed the dividend twice over the last year. This formed a key part of its cost-cutting measures, which were aimed at shoring up cash flows and enhancing the sustainability of its operations. While this was disappointing for investors who had come to depend on the handy monthly payments and juicy yield, it helped Crescent Point survive in what is the harshest operating environment experienced by for oil companies in decades.

Even so, Crescent Point still yields a handy 2% and with its current dividend appearing sustainable, it will continue to reward loyal investors as they wait for oil to recover.

In a surprise move, Crescent Point completed a $650 million equity raising last month to bolster its coffers and strengthen its balance sheet. This leaves it well positioned to boost investment in exploration and development drilling, reduce debt, and consider acquisitions in what is a buyers' market for oil assets.

Crescent Point has already increased fourth-quarter 2016 capital expenditures by $150 million, and this, it expects, will cause average daily oil production for 2016 to rise to 167,000 barrels. For 2017, it is forecasting $1.4 billion in capital expenditures, which is $450 million higher than its sustaining capital budget of $950 million.

As a result, oil production is expected to grow by 6% compared to 2016 to 177,000 barrels daily.

This will position Crescent Point to take full advantage of higher expected oil prices over the course of 2017.

Late last month the World Bank raised its 2017 forecast price to US$55 per barrel, or 4% higher than it had been previously. Some analysts are even predicting that prices could rise to as high as US$60 per barrel by the end of the year.

These higher oil prices, along with growing production and lower costs, will give Crescent Point's earnings a healthy boost.

So what?

Crescent Point offers investors considerable upside with a minimal amount of risk. Its solid balance sheet, high-quality assets, and capable management team have made it one of the best energy companies to take advantage of higher crude prices over the next year. This makes now the time for investors to add Crescent Point to their portfolios.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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