Crescent Point Energy Corp. Is Impossible to Ignore at These Prices

Description

Oil bulls were disappointed once again on Friday after reports that a planned meeting between Saudi Arabia and non-OPEC nations was cancelled at the last minute. This latest news was an unfortunate development for those betting on a production freeze, as the lack of cooperation from Russia and other-non OPEC countries means the cartel's member countries will have to coordinate an even larger cut to have a meaningful impact on oil prices given the current supply figures.

And you know what? I don't care; I view Friday's pullback as a buying opportunity to load up on quality Canadian energy names. One such company that springs to mind is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which is impossible to ignore at these valuations.

Deep discount to peers

One quality that that attracted me to Crescent Point right off the bat was its hefty discount to its peer group. Currently, Crescent Point is trading at just six times its 2017 debt-adjusted cash flows (EV/DACF) versus eight for its large-cap peers. The reason for the large divergence was the market's disapproval of the $650 million equity issuance that Crescent Point completed back in September; it was seen as a fallback on management's earlier promises to cut back on dilutive issuances.

While I will admit that the equity raise could have been better timed given its already low valuation, I view the ensuing sell-off as an overreaction, since the equity raise could be seen as a way for Crescent Point to avoid taking on more debt during a prolonged supply glut, and also because these current valuations are completely decoupled from Crescent Point's notable strengths.

Crescent Point boasts some of the best metrics in the industry

The first of such strengths is Crescent Point's cash netbacks (the revenue it makes net of royalties, transportation, and operating expenses) of $15 per barrel at $30/bbl oil–the highest in the industry. In other words, if oil prices were to retreat to (unlikely) $30/bbl lows, Crescent Point would still be able to weather the downturn better than most of its peers.

Second, Crescent Point's cost cutting has been commendable; cash costs are down 21% since 2014, and cash flow margins are 43%, excluding hedging (**National Bank** estimates).

Moreover, Q3 2016 production came in at 160.6 mboe/d–in line with consensus expectations and on track to management's target of 170 mboe/d by Q1 2017. Finally, Crescent Point has also guided capex at $1.1 billion for FY 2016, which is down from $3.3 billion in 2015 as the majority of its counter-cyclical acquisitions are now in the rear-view mirror. This is good news for income investors; it means Crescent Point's dividend is very safe, even if oil hangs out at these prices throughout next year.

The bottom line

Question: Will OPEC cut production next week?

Answer: Who cares? Crescent Point is trading at an unjustifiably low valuation given the strength of the company. Pick up some shares, collect the safe dividend, and wait out the oil downturn.

And one last thing: according to a report from Alta Corp Capital, the last times Crescent Point was this discounted was back in November 2014 and January 2015; shortly afterwards, the company proceeded to outperform the **iShares SP TSX Capped Energy Index Fd.**

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ajtun