Crescent Point Energy Corp.: Will the Rally Continue?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has enjoyed a nice surge in the wake of OPEC's deal to cut production.

Let's take a look at both the company and the outlook for oil to see if this is a good time to buy the stock.

Results

Crescent Point delivered solid Q3 2016 operating results and is poised to finish 2016 on a positive note.

The company reported third-quarter production of 160,610 barrels of oil equivalent per day (boe/d) and said it is on target to meet or exceed production guidance of 167,000 boe/d for the full year.

Capital costs have fallen 12% compared to year-end 2015. This is on top of a 30% reduction achieved last year.

Low oil prices are still keeping the company in the red. Crescent Point generated a net loss of $108.5 million, or $0.21 per share, in the third quarter.

Guidance

Crescent Point is one of the few producers to maintain or increase output while making substantial capital cuts over the past two years.

Now it looks like the company is ready to open the purse strings again.

Better-than-expected production coupled with an improvement in oil prices has led to a capital expenditure increase of $150 million for the fourth quarter. In addition, Crescent Point is raising its 2017 capital plan from $950 million to $1.4 billion.

This should lead to production gains of 5-8% next year.

Will the oil rally continue?

OPEC just announced a deal to reduce output, and the market seems to think Saudi Arabia and its peers are actually going to follow through on the commitment.

WTI oil is back up above US$50 per barrel, and this has led to significant gains in the beleaguered oil sector with many names, including Crescent Point, initially rising 20% on the news.

If oil supplies fall in the coming months, the price could continue to drift higher, and that bodes well for Crescent Point and its peers.

Should you buy?

Crescent Point is definitely a name you want to own if you believe oil is destined for a strong move to the upside.

Having said that, investors should be careful chasing the recent surge. Some analysts simply see the OPEC deal as more rhetoric designed to push up prices and don't really expect the group's members to significantly close the taps.

If production does actually come down and oil prices manage to get above US$55, American producers will ramp up output again, and that could quickly end the party, regardless of OPEC's best efforts.

As a result, I would keep any position in Crescent Point small today and look to add on a potential pullback in the coming months.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:VRN (Veren)
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