



## Crescent Point Energy Corp. Is Hitting the Accelerator as it Heads into 2017

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) continues to grow more bullish on the oil market recovery. That is evident by looking at the company's recently released 2017 capex plan; it will spend more money, so it can grow faster than initially expected. Further, the company has ample flexibility within its strategy to boost spending and grow even production faster if commodity prices warrant an increase.

### Setting the bar higher

Crescent Point initially estimated that it would spend \$950 million next year on capex. However, the company increased its preliminary estimate by \$450 million last month; it's planning to spend that incremental capital in the second half of the year due to its view that commodity prices will be higher by that point.

That money would give the company the ability to boost its production to an average of 175,000-177,000 barrels of oil equivalent per day (BOE/d) by the end of next year, which represents a 5-8% increase over its 2016 exit rate.

Since that time, OPEC has agreed to cut its output and coaxed other non-member nations to join it, which has only increased Crescent Point's confidence that oil prices will be much stronger in 2017. The company has decided to add another \$5 million to the budget and accelerate spending, so it can end next year producing 183,000 BOE/d, which is 10% higher than what it will finish this year with.

Further, the company expects to be able to fully fund that spending level plus \$200 million in dividend payments while living within cash flow at \$52 oil.

### The flexibility to go higher

Given that Crescent Point just needs \$52 oil to balance outflows with cash flow, it has tremendous upside should prices run higher than that. In fact, the company projects that it can produce an incremental \$50 million in funds flow from operations for every \$1 per barrel the oil price averages above \$52 per barrel next year. So, for example, if oil averages \$60 per barrel next year, the company

can fund the current capex budget and the dividend plus generate \$400 million in excess cash flow.

That excess cash flow gives the company several options. For example, it could increase the dividend, make acquisitions, or boost growth spending even further. That third option seems to be the likely choice given that the company added 1,000 new internally identified drilling locations over the past year to its inventory. The company now has a large enough drilling inventory to last it the next 12 years, even at its accelerated drilling pace in 2017.

Suffice it to say; it will not run out of drilling locations anytime soon, especially given the fact that it only intends to drill 670 wells next year, which likely means inventory growth should continue to outpace development. The company can easily surpass its plan to boost output by 10% next year, which is starting to look conservative given the likelihood that oil could be well above \$52 per barrel next year.

### **Investor takeaway**

Crescent Point spent the oil-market downturn preparing for the eventual upturn by reducing costs and building an inventory of lucrative drilling locations to drive future growth. With the oil market starting to turn, the company is ready to pounce on the opportunity to capture higher oil prices by accelerating its drilling activities. Further, given the flexibility of its plan, if crude continues to rally, Crescent Point can drill more wells to capture that upside, which sets it up for what could be an exceptional year in 2017.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

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mdilallo

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