Crescent Point Energy Corp.: Should You Buy This Stock Now?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has done a good job of navigating through the oil rout.

Let's take a look at the current situation to see if this is the right time to add the former dividend star to your portfolio.

Oil price recovery

Oil prices have picked up a tailwind in the wake of OPEC's deal to cut production, and that has provided a nice boost to the energy sector.

Will the rally continue?

Pundits have mixed opinions about how things will play out in the coming months.

Oil bulls believe OPEC and other non-member countries that have committed to addressing the global supply glut will see the program through, resulting in a more balanced market and higher prices going forward.

Skeptics look at OPEC's track record of cheating on output restrictions and say the rally will be short-lived once it becomes evident that supplies are not dropping as much, or as fast, as expected.

Higher oil prices could also trigger a production surge in the United States, which would likely keep a lid on any significant price appreciation, even if OPEC and its peers meet their reduction targets.

At this point, it is too early to tell which way things will go next year, but the market appears to be optimistic. WTI oil currently trades at US$52 per barrel, which is close to the 12-month high.

Crescent Point's appeal

Crescent Point is positioned well to ride out an extended slump and will benefit significantly if oil manages to stage a meaningful recovery.

The company has done a good job of reducing expenses over the past two years. Capital costs are down 12% in 2016 and fell 30% in 2015.

Production has actually increased through the downturn as a result of strategic acquisitions, and Crescent Point is on track to meet or exceed its 2016 guidance of 167,000 barrels of oil equivalent per day (boe/d).

The company is planning to boost its development budget to $1.45 billion in 2017, which should result in an additional 10% in average daily production for the year.

As long as WTI oil averages US$52 per barrel, Crescent Point believes it can meet the capital plan and cover the dividend using funds from operations.

Crescent Point continues to maintain a healthy balance sheet and has adequate access to capital. As of September 30, the company had $1.9 billion in unused available credit facilities.

The company recently said it has 29% of oil 2017 production hedged at roughly $72 per barrel, providing some protection against a price drop.

Should you buy Crescent Point?

I suspect OPEC and its peers will initially reduce output to drive prices higher, so there could be more near-term upside for Crescent Point’s stock price.

The medium-term outlook, however, remains unclear, and there is a risk that prices could see a period of weakness after the current euphoria runs its course.

If you are a staunch oil bull, Crescent Point should be in your portfolio, but I would keep the position small.

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