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Crescent Point Energy Corp. Is Well Worth a Look Going into 2017

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG), like many oil companies, has had a tough run in the past few years. The good news is the price of oil has started to rebound and has increased to above $50 per barrel. This in turn has translated to the shares of Crescent Point recovering in value.

With a cold winter from coast to coast, the demand for oil has not dissipated. In fact, the need for heat increases. It's time to be optimistic about the cold weather!

Looking forward instead of backwards is a very important thing when it comes to making an investment. Almost any long-term shareholder will not be satisfied with the performance of this security over the past five years. Although shares are up approximately 7% over the past year, the past five years have seen a destruction of shareholder value of almost 60%.

Looking forward, however, there is a clear reason to be optimistic. Currently trading at approximately $18.15, new shareholders are getting tangible book value of approximately $18.18. The answer to the question of what investors are giving versus what they are getting leads to an easy answer. The buyer is getting the future growth profit for free.

From an investment perspective, it's a good thing to be getting hard assets equivalent to what you're paying in addition to the future profits of the company. Although the company has been losing money since 2015, the reality is that with a rebound in the price of oil, the future may be looking much brighter. In spite of losing money for a number of quarters, the company has been able to remain cash flow positive.

In 2015, CFO (cash flow from operations) was $1,957 million, followed by $1,087 million during the first three quarters of 2016. Although the non-cash charges, such as depreciation or write-downs, are leading the losses, the company has the potential to weather the storm and return to profitability in 2017.

With a dividend cut to $0.03 per share per month, the pain felt by long-time shareholders has been substantial. In 2015, the monthly dividend was cut from $0.23 to $0.10 and then to $0.03 in 2016.

Shareholders have had their monthly allowances cut drastically. Although the new dividend is probably sustainable, new investors should not be buying for yield; they need to be looking at Crescent Point as a long-term buy and hold with the potential to increase the values of their portfolios through capital gains instead of from dividends.

Currently trading at a price in line with Crescent Point's book value, shares may be offering excellent long-term value. In the short term, however, we may experience more of a roller-coaster ride than anything. Given the industry and strong correlation to the price of oil, this security is one I will watch going in to 2017.

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