Crescent Point Energy Corp.: Is the Sell-Off Now Overdone?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is down more than 17% in the past month, and investors are wondering if this is a good opportunity to pick up the stock.

Let's take a look at one of the most popular names in the Canadian energy patch to see if it should be in your portfolio.

Oversold?

Crescent Point trades pretty much where it did a year ago, but the oil sector is arguably in much better shape.

In fact, the price of WTI is currently US$53 per barrel. At the beginning of February 2016, WTI was significantly lower — around US$40 per barrel.

Based on that, you would think Crescent Point would be trading much higher.

The steep slide in recent weeks also appears to be a bit out of line with the pullback in oil, which has given up a mere 4%.

When we look at possible company-specific reasons for the drop, the story becomes even more confusing.

Crescent Point's balance sheet is in good shape, the company has adequate liquidity to give it the flexibility it needs in the current market, and management has increased the 2017 capital plan to a level where average daily production is expected to rise by at least 10% compared to last year.

Based on that information, you would expect the stock to be rising or at least treading water.

What's going on?

Markets are concerned oil might give back the gains achieved since OPEC announced its pact to cut output. The deal, which includes Russia and a handful of other non-OPEC producers, hopes to reduce production by 1.8 million barrels per day (b/d) through the end of June.

Reports come out on a near-daily basis as to whether or not the group is on track. OPEC and Russia say they are hitting their targets, but other reports suggest the group is running at about 75% of the agreed reductions one month into the process.

Analysts are also looking at the growing rig count in the United States and wondering if U.S. production gains will negate any impact made on the market by OPEC's reduction efforts.

The U.S. Energy Information Administration says American production was about 8.6 million b/d in September, is expected to average nine million in 2017, and could reach 9.3 million in 2018.

On top of that, investors are somewhat concerned that policy changes under the Trump administration could have a negative impact on Canadian companies, including oil producers.

So, there you have some of the reasons why Crescent Point's shares are under more pressure than one might expect.

Should you buy Crescent Point?

Contrarian investors might want to start nibbling on further weakness.

Why?

The company is capable of riding out additional volatility, and investors get a 2.4% yield while they wait for better days.

At the current price, Crescent Point is generating enough cash flow to cover the capital plan and the dividend. If oil moves higher and stays there, investors might even see the distribution start to increase.

You have to be a long-term oil bull to own any of the producers today, but if you are in that camp, Crescent Point is starting to look attractive.

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