Pick Up Shares of Crescent Point Energy Corp. While They’re Extremely Undervalued

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has been in the house of pain for over two years now. The stock plummeted over 70% from the June 2014 peak to the January 2016 trough thanks to the rout in oil prices.

Oil prices gradually recovered, and so too did the stock of Crescent Point, but the stock started dropping again in the latter part of 2016, even though oil prices kept climbing higher. The price of oil is now above $50, but Crescent Point has fallen back to the low $14 level seen during the oil rout in early 2016.

Could this be your second chance to jump into Crescent Point at a huge discount?

The management team at Crescent Point has been focused on cutting costs while attempting to keep production at a reasonably high level. Such initiatives include using innovative technology to lower costs and improve operational efficiencies. These investments will pay off many years down the road, especially if oil decides to pull back again. There’s no question that Crescent Point is in much better shape than it was a year ago, and it’s surprising that the stock managed to give up most of the gains from the first half of 2016.

Many pundits believe oil prices will break the $60 mark by the conclusion of this year. If this ends up happening, then it’s likely that Crescent Point will enjoy a huge amount of upside as the company crushes analyst expectations in the quarters to come. Oil prices may even go substantially higher than the $60 mark because demand is still high and U.S. consumption is expected to grow for 2017.

With oil prices above $50, we can expect a boost to the company’s 2017 development program, which should boost production by 183,000 barrels of oil per day or about 10% more than last year. If oil prices continue to rise higher, then we will see production increase, and the stock could quickly soar into the atmosphere.

Shares are severely undervalued

Shares of Crescent Point are severely undervalued at current levels and offer a considerable margin of safety. The stock is trading at levels not seen since the trough of the oil rout, and this current sell-off should be treated as a huge buying opportunity for long-term investors that want to profit from an oil rebound.

The company currently trades at a 0.8 price-to-book multiple, a 2.9 price-to-sales multiple, and a 4.7 price-to-cash flow multiple, all of which are lower than the company's five-year historical averages of 1.5, 3.9, and 5.6, respectively. With a price-to-book multiple at almost half of what it normally is, investors who buy now can own shares at a gigantic discount to their intrinsic value. The company had a price-to-book multiple over two for the years following the Great Recession, which is more than double what it is now.

If you're a deep-value investor or a contrarian investor looking for a rebound, then look no further than Crescent Point. This is a second chance to get shares at a huge discount if you didn't buy the dip in the early part of last year.

Stay smart. Stay hungry. Stay Foolish.

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