Crescent Point Energy Corp.: Is it Time to Buy This Stock?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is down more than 20% since December 19 and isn't far off the 12-month lows.

Let's take a look at the current situation to see if the sell-off looks justified.

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Oil holding steady

The pullback in Crescent Point's share price is starting to look overdone, and that has some contrarian investors kicking the tires on the stock.

What's the scoop?

The price of WTI oil hit US$55 per barrel in the middle of December after markets rallied in the wake of the OPEC agreement to reduce oil production by 1.8 million barrels per day through June 2017.

Since then, a battle has waged between bulls who believe OPEC and its partners in the pact will hit their targets and bears who think that the group will not be able to keep some members from cheating.

As a result, WTI oil has drifted lower in the past two months, but the price has remained above US$50 per barrel.

At the time of writing, WTI is trading above US$53 per barrel, which isn't too far off the December high, yet Crescent Point is down 23% and trades for about $14.50 per share on the TSX.

A year ago, WTI was US$40 and Crescent Point could be picked up for $14, so the stock was either too expensive last winter or the recent sell-off has gone too far.

Production gains

Operational improvements make the situation look even more appealing from a contrarian perspective.

Crescent Point has raised its capital expenditures from $950 million in 2016 to $1.45 billion this year.

The extra drilling activity is expected to boost year-end daily production by at least 10%.

Crescent Point says the capital plan and its dividend can be funded through cash flow from operations as long as WTI oil averages US$52 per barrel for the year.

At the moment, that certainly looks feasible, but there are some downside risks for oil and Canadian producers.

U.S. production

American producers are ramping up output now that oil is back above US$50 per barrel.

The U.S. Energy Information Agency (EIA) says average daily production in the country rose from below 8.6 million barrels per day in September to about nine million in December.

Oil bears say rising U.S. output will counterbalance OPEC’s attempts to drive prices higher through its production cuts.

Trump effect

Canadian oil producers have come under some additional pressure amid fears that President Trump could hit them with a border tax.

The CEO of **Suncor Energy** recently said he doesn’t think a border adjustment tax is in the cards, so we’ll have to see how things pan out.

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Should you buy?

Crescent Point has a strong balance sheet, is living within its cash flow, and will raise output by 10% through 2017. It also has the financial flexibility to ride out another downturn or make additional strategic acquisitions.

You have to believe oil is headed higher to own any of the producers right now, but if you fall in that camp, this might be a good time to take a position in the stock.

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