



Does Crescent Point Energy Corp. Deserve to Be a Top Contrarian Pick?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) continues to linger near its 12-month lows, and contrarian investors are starting to wonder if the stock is oversold.

Let's take a look at the current situation to see if Crescent Point deserves to be in your portfolio.

Trump concerns

Canadian oil producers are facing some Trump headwinds that might not be as serious as the market thinks.

What's going on?

Trump is kicking around the idea of implementing border taxes that could potentially hit the Canadian oil patch.

Analysts are back and forth as to whether or not a border tax is in the cards, and further debate rages on the topic of oil producers getting an exemption.

Trump's secretary of state is a former oil executive, so there is reason to believe he might be more sympathetic with the sector.

Industry leaders have also weighed in with their opinions. For example, the CEO at **Suncor** recently said he doesn't think a border adjustment tax is on the way.

Trump continues to be unpredictable, so anything could happen, but I suspect the impact the concern is having on Canadian oil producers, including Crescent Point, is somewhat overdone.

Oil prices

A year ago WTI oil traded for about US\$40 per barrel. Today it sells for US\$53. That's a significant difference, especially for producers, because many have breakeven points close to the US\$40 level.

Oil has rallied since the end of November on the back of OPEC's agreement to reduce production by 1.8 million barrels per day. Further upside is being countered by rising production in the United States.

For the moment, WTI oil appears stuck in a tight US\$50-55 range. If OPEC members begin to cheat, or if U.S. production ramps up more than expected, prices could tumble, but the market is showing an ability to hold its own above US\$50.

Crescent Point

Crescent Point is trading pretty much exactly where it did 12 months ago at \$15 per share.

The company has ample liquidity to ride out another downturn or make additional strategic acquisitions, so the solvency of the business is not in question.

A quick glance at the price of oil suggests the stock was either overvalued last February or is currently oversold. When we look at the production guidance, the undervalued theme starts to emerge.

Why?

Lower production could justify the stagnant stock price in the current oil environment, but Crescent Point has taken advantage of the rise in oil prices to boost its capital plan from \$950 million to \$1.45 billion, and the result should be a production increase of at least 10% by the end of the year.

In addition, management says the capital plan and the current dividend can be covered through funds flow from operations as long as WTI oil averages US\$52 per barrel this year.

That looks like a reasonable target right now, so the company is living within its cash flow.

Should you buy?

If you are an oil bull, Crescent Point should be attractive at the current price, and you'll get paid a 2.4% dividend yield to wait for better days.

More volatility might be in the cards, so I wouldn't back up the truck, but the upside potential probably offsets the downside risk at this point.

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