Crescent Point Energy Corp. Surges: Time to Buy?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has jumped 10% in the past two days, and investors are wondering if more gains are on the way.

Let's take a look at the former dividend star to see if it deserves to be in your portfolio.

Activist rumours

Crescent Point surged from $15 to above $16.50 over a two-day period after rumours hit the market that an activist investor might be building a stake in the company.

The stock has underperformed in the past year, trading close to where it did last February, despite a 25% increase in oil prices.

A recent *Globe and Mail* article suggests executive compensation levels might be one part of the reason for the company being targeted. The report says Crescent Point's CEO received total compensation of $9 million in 2015, even as Crescent Point slashed its dividend amid a prolonged downturn in the market.

Another reason for investor unrest could be the company's history of issuing shares to pay for acquisitions and expanding capital outlays. The strategy worked well back when the stock was a high-flying dividend darling, but the meltdown in the patch has changed the game, and many investors now want oil companies to fund growth and dividends through cash flow.

Is Crescent Point attractive?

The stock certainly merits some attention.

As mentioned, oil is up significantly in the past 12 months, but Crescent Point's stock hasn't gone along for the ride.

If production were falling, it would make sense, but Crescent Point is targeting year-end production growth of at least 10% in 2017.

On top of that, the company says it should hit a payout ratio of 100% based on its current dividend and the 2017 capital plan as long as WTI oil averages US$52 per barrel through the year.

Oil currently trades above US$54 per barrel, and recent stability above US$50 suggest the US$52 target might be quite reasonable.

Should you buy?

Oil is having trouble breaking above US$55 per barrel due to rising U.S. production, which is proving to be a strong headwind against output cuts being implemented by OPEC and a handful of other countries.

If OPEC can meet or exceed its target of reducing production by 1.8 million barrels per day through June, and maintain that level, there is a chance oil could drift higher through the end of the year.

If that happens, Crescent Point has some strong upside potential from the current level.

On the other hand, any indication the OPEC pact is falling apart could send oil sharply lower, so investors have to be careful.

I wouldn’t buy on activist rumours, but the stock looks attractive in a rising-oil environment. If you are an oil bull, it might be worthwhile to start nibbling on the next pullback.

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