



Crescent Point Energy Corp.: Don't Fear the Volatility. Embrace it

Description

Volatility and risk are not the same thing. Many investors believe that the two are synonymous, but this is far from the truth.

The brilliant investor Warren Buffett used to say, "Volatility is a long-term investors' best friend." I believe this is one of the most important lessons that Buffettarian investors, those who follow the principals taught by Buffett, will use to their advantage.

Nobody wants added risk, and there's no question that volatility adds to the amount of risk in the short term, but if you're a long-term investor, volatility brings forth opportunities to buy a business at a discount to its intrinsic value.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is a terrific business that is reported to have caught the attention of an activist investor. The stock responded by soaring over 5%, but on Wednesday, the company fell back to earth by falling nearly 5%. There's no question that the amount of volatility has increased, but this could bring an extremely attractive entry point for investors who want a piece of a terrific business priced at a discount.

Activist investor interest, concerns over OPEC's pact, and the constant fight between value investors and traders have sent this stock spiking in both directions. I believe investors should buy the stock and hold it for the long term — don't trade it ... not at these levels.

Sure, there's a risk that OPEC's decision to reduce oil production may be broken, and oil stocks may give up all their gains. But Crescent Point has already given up the gains it had since its trough during oil's low earlier last year. The company is definitely better off than it was during the oil rout, and it should be indicative of a higher stock price, but it's still trading around the \$15 level.

The management team has been cutting costs and has plans to increase capital expenditures for this year to \$1.45 billion. The company will be able to sustain its dividend, assuming oil remains in the \$50 range, but even if oil crashed again, Crescent Point would still be in better shape than it was a year ago. The balance sheet is quite healthy, and I believe the company is better prepared.

I believe Crescent Point is a must-buy if you're bullish on oil. It's still not a bad pick even if oil prices remain flat or pull back a bit. The company is just too cheap right now, and there's a very good chance that the stock will rebound over the next few years.

Don't fear Crescent Point's volatility. Embrace it.

Stay smart. Stay hungry. Stay Foolish.

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Author

joefrenette

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