Should You Consider Crescent Point Energy Corp.?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is one of those stocks that confounds investors. On the one hand, oil has remained relatively strong above US$50 a barrel with WTI currently trading at US$53.99. On the other hand, Crescent Point is trading at near all-time lows. After 12 months, it seems very little has changed for this company.

What investors are trying to determine is whether this stock is worth considering or if they should just turn their backs on it entirely. To answer that, let's look at the financials.

The good news for Crescent Point was that it exceeded annual average production than had been guided. Its annual average production was 167,764 BOE/day on a $1.10 billion capital-expenditure budget. An increase in production, especially with the price of oil going up, is always a good sign.

And its funds flow from operation, totaling $422 million, or $0.77 per share, shows that Crescent Point is moving in the right direction. With the company only paying out $0.09 per share during the quarter in dividends, its funds are in a good place. Crescent Point had a payout ratio of 89% in 2016 based on $1.14 billion in development capital expenditures and $260.3 million in dividends. This is a good sign because the company was sporting a near-100% payout ratio, which can put a dividend at risk.

Even better, the company continues to become more efficient. Its annual operating costs per BOE was $11.27 — 8% lower than the $12.25 that the company budgeted, allowing it to generate increased margins from every barrel of oil it pumps.

And yet the company had a net loss of $510.6 million for the fourth quarter — up from $382.4 million in the same period of 2015. How can that be? Oil is much higher than it was a year ago, so why isn't the company generating net income?

Sometimes companies will hedge oil so if the price craters, they can continue to generate money. Unfortunately for Crescent Point, it hedged incorrectly, and that resulted in a $457 million non-cash after-tax net impairment charge. And as oil continues to increase in price, this impairment charge could become even larger, cutting into the company's net income. But the good thing is that the charge will have no impact on the company's funds flow from operations.

So, while the company is not profitable, it is generating enough cash flow that it will be in a position to continue paying its dividend.

Crescent Point continues to place hedges. Since Q3 2016, it has hedged 11.8 million barrels. As of February 20, "the company has 39% of its 2017 oil production … hedged at a weighted average market value price of CDN$72.00/bbl." Because I'm not an expert at predicting where oil will go, this could be a smart move, but it could also hurt the company even more if oil moves higher than that.

At the end of the day, Crescent Point is in a position to pay its dividend. And it continues to bring in enough cash to cover its dividend and investments. However, until it can start pushing toward profitability, I don't see these shares changing in price much. If the price of oil drops, it could have a serious impact on the company. Holding a small position is fine if you're an oil bull, but a lot need to be done for Crescent Point to get on even ground.

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