Does Crescent Point Energy Corp. Belong in Your RRSP?

Description

Now that you've made the cut-off and managed to make your RRSP contribution, you're probably wondering what stocks to buy and hold for the future. One name that should be familiar to most Canadian investors is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which is currently trading at a steep discount to its peers. But does Crescent Point belong in your RRSP? Read on to find out.

Strong Q4 results paints rosy picture

Crescent Point's Q4 results came in ahead of analyst expectations with cash flow per share of $.77 and production volumes of 165,000 boe/d. Moreover, capital spending for the year came in at the guidance of $1.1 billion, while the company ended the year with net debt of $3.7 billion, or 2.2 times its cash flow.

Following the upbeat earnings, the company also reiterated its 2017 guidance with exit production figures of 183,000 boe/d (10% higher on an absolute basis than 2016's volumes) based on capex of $1.45 billion and a targeted payout ratio of 100% of funds flow from operations at US $52/bbl oil. Moreover, the bulk of the spending is focused on the Williston Basin, where the company is expecting 5% regional growth with the rest of the spending divided between southwest Saskatchewan and the high-growth Uinta Basin in Utah.

That being said, although Q4 results left little to be desired, 2016's slump in oil prices did weigh on Crescent Point's reserves. Thanks to lower oil prices, Crescent Point's future revenues from proven plus probable reserves fell 1.7% to $71.766 billion from $73.04 billion in 2015.

Discount is hard to ignore

According to estimates from **Barclays Capital**, Crescent Point is trading at a 25% discount to peers. This is quite evident by the price action of Crescent Point's stock; the stock has sharply decoupled from crude spot prices, which continue to trade firmly about US $50/bbl.

So, what gives?

There are three possible reasons why Crescent Point is trading the way it is.

One, Canadian oil names have experienced selling pressure across the board, stemming from the threat of a protectionist border taxes in the United States.

Two, there's market skepticism (albeit dissipating skepticism) around OPEC's ability to cut output and Crescent Point's ability to maintain a dividend, which is contingent on oil staying at about US $50/bbl.

And finally, perhaps the most important reason behind Crescent Point's discounted valuation, is the fact that management's reputation among investors took a hit when it raised equity while the stock was languishing in the mid-teens in 2016. Based on the sharp sell-off that followed last year's equity issuance, however, I believe that management has learned their lesson. In other words, if I had to surmise, I doubt we will be seeing another equity raise from Crescent Point in the near future (at least not at these prices).

So, to answer the original question, yes, Crescent Point does belong in your RRSP. However, do not go overboard here, even though the discount is tempting, as oil prices could go south the moment there is a perceived failure in OPEC's cooperation. Furthermore, we have yet to see anything concrete from the Trump administration concerning border taxes, and a steep protectionist tax could have drastic consequences for the entire Canadian oil industry.

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Date
2025/08/16
Date Created
2017/03/06

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