Crescent Point Energy Corp.: When Should You Buy?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is on the slide again and now trades close to its 12-month low.

Let's take a look at the current situation to see if the sell-off has more room to run.

Oil prices

Oil rallied through most of last year on the hopes that OPEC would get its act together and nail down an agreement to reduce global supplies.

After nearly a year of negotiations, the group announced a plan at the end of November that would see the members and a handful of other countries cut production by 1.8 million barrels per day (bpd) through June 2017.

The announcement helped extend the 2016 rally that saw WTI oil move from below US$30 per barrel in January 2016 to US$55 in late December.

Since then, the market has been reasonably stable, drifting in the US$52-54 range with upside support coming from investor belief that OPEC and its peers can deliver on their commitments and headwinds coming from rising U.S. production.

Trouble brewing

Last week, Russia reported stagnant production for the month of February compared to January. This is important because Russia is one of the non-OPEC producers that signed on to help reduce supplies. In fact, Russia is supposed to reduce output by 300,000 bpd.

In January, the country dropped output by 100,000 bpd, and further reductions were expected last month.

If Russia has decided to halt its participation, the entire pact could fall apart.

At the same time, American production continues to increase, and U.S. crude inventories have risen for nine straight weeks.

OPEC says its member had a 94% compliance rate with the reduction efforts in February, so there is a chance the Russians will say the pause was just a blip and continue to reduce output.

However, the market is beginning to get nervous, and any break below US$50 per barrel for WTI could trigger a new sell-off.

Should you buy Crescent Point today?

It's true that Crescent Point looks like a bargain right now. The company isn't trading that far off its 2016 lows, yet oil is significantly higher and production in 2017 is expected to rise 10% by the end of the year. The balance sheet is in decent shape, and Crescent Point has the financial flexibility to ride out another dip.

Contrarian investors might want to keep an eye on the stock, but I wouldn't buy just yet. The latest dip might be the start of a much larger downdraft.

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