Crescent Point Energy Corp.: A Contrarian Buy?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is trading close to its 12-month low, and investors are wondering if the sell-off is overdone.

Let's take a look at the current situation to see if Crescent Point should be in your portfolio.

Oil outlook

Oil prices recovered in 2016 from a low below US$30 per barrel early in the year to US$55 per barrel in December.

The initial rally occurred due to hopes for an agreement by OPEC producers to reduce supplies, and the extended recovery occurred after OPEC finally announced an agreement in late November.

What's the scoop?

OPEC and a handful of other countries, including Russia, are targeting production cuts of 1.8 million barrels per day (bpd) through June 2017.

Oil remained above US$50 through January and February, as markets believed OPEC and its partners were meeting their reduction objectives, but crude prices have slipped in the past week.

Why?

Russia reported February production that was relatively unchanged from January. The country reduced output in January by 100,000 bpd and has agreed to reduce production by 300,000 bpd under the deal with OPEC.

The fact that Russia paused its output cuts has investors wondering if the OPEC deal is falling apart.

OPEC says its members hit a reduction compliance rate of 94% in February, so there is a chance the pact will remain intact, but reports have come out suggesting Saudi Arabia is carrying the load forsome of its OPEC peers who are missing their targets.

At the time of writing, WTI oil is at US$48.40 per barrel.

Crescent Point

Crescent Point currently trades for about $14.50 per share. A year ago, investors had to pay close to $18 for the stock, and that was when oil traded at US$45 per barrel.

So, based on oil prices, Crescent Point was either overbought last year or is now oversold. When we take a look at the production outlook, the oversold argument starts to gather more steam.

Crescent Point raised its capital plan for 2017 and expects to exit the year with a 10% gain in average daily production. Higher output at better prices should be supportive for the stock.

In addition, the company's balance sheet remains in good shape, and Crescent Point has adequate financial liquidity to enable it to ride out another downturn, or scoop up additional strategic assets to boost the resource base.

Should you buy?

Crescent Point looks attractive today if you have a positive view of the long-term oil story, and it might be worthwhile to add a contrarian position to your portfolio.

However, I would keep the position small, given the near-term market risks. Oil prices could fall further, as rising U.S. production provides a headwind and concerns mount over OPEC's ability to meet its reduction targets.

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