Crescent Point Energy Corp.: Has This Stock Finally Bottomed Out?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is catching a bit of a tailwind after an extended pullback, and investors are wondering if this is the time to buy the stock.

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

Oil outlook

Oil prices have seen a bit of a rebound in recent days, and that has resulted in a flood of bargain hunters coming into the producer stocks.

Whether the latest bounce is the start of a new rally or simply a brief head fake before another move lower is anyone's guess. In fact, things could really go either way in the near term.

Why?

Investors are trying to decide if OPEC and a handful of non-member producers are going to meet their target of reducing daily oil production by 1.8 million barrels per day (bpd) through June.

OPEC says it is more or less holding up its end of the bargain, although some pundits believe Saudi Arabia is essentially carrying the load for non-compliant members.

As part of the pact, Russia has committed to reduce its output by 300,000 bpd. The country lowered production by 100,000 bpd in January, but no further cuts were evident when the February stats came out.

That might have simply been a blip in the process, but we will have to wait for the March numbers to come out to see if Russia is back on track.

And the Americans?

Growing production in the United States might be the most important headwind to further oil gains; American producers are taking advantage of the increase in oil prices over the past year to ramp up production. If the trend continues, OPEC's efforts to boost prices through supply cuts might not work as expected.

So, there are a lot of moving parts right now in the oil space, and investors should be prepared for more volatility.

What about Crescent Point?

Crescent Point has bounced from $14 to above $15 per share in recent days, but the stock remains significantly below the $18 mark it held at this time last year.

If oil prices were lower, the discount would make sense, but WTI was about US$44 per barrel a year ago and is currently above US$49.

When we look at production, the story gets more interesting. Crescent Point has increased its development spending this year, and that is expected to result in year-end production that is at least 10% above 2016 levels.

Higher output at better oil prices should warrant a better stock price, even when last year's equity issue is taken into account.

In addition, the balance sheet remains in decent shape, and Crescent Point has the financial flexibility to ride out another downturn or take advantage of opportunities to add strategic assets.

Should you buy?

Investors with a positive outlook on the oil sector over the medium term might want to start nibbling on Crescent Point at the current level and consider adding on further dips.

Oil could go either way in the near term, so it would be prudent to keep any new positions small.

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