Is Crescent Point Energy Corp. a Buy at $13?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) just hit a new 12-month low, and investors are wondering if the sell-off has gone too far.

Let's take a look at one of Canada's previous dividend stars to see if it deserves to be in your portfolio.

Decent results

Crescent Point just reported reasonable numbers for Q1 2017. The company generated funds flow from operations of $427 million, or $0.78 per share diluted.

Capital expenditures on drilling and development activities were $465.5 million in the quarter, so the company didn't generate enough free cash flow to cover the dividend, but it wasn't too far off.

On a full-year basis, Crescent Point says it can generate a payout ratio of 91% based on average WTI oil prices of US$55 per barrel. WTI has averaged below that so far in 2017 and currently stands at US$49 per barrel.

The company's hedging program has 41% of the remaining 2017 oil production hedged at $71 per barrel. The company also has natural gas hedges in place through 2019 at a weighted average price of $2.87 per gigajoule.

Liquidity

Crescent point continues to maintain adequate liquidity to help it ride out a further downtrend in oil or take advantage of strategic buying opportunities.

The company finished Q1 2017 with untapped available credit of $1.45 billion.

During the first quarter, the company acquired 8,500 net acres of land for US$100 million in North Dakota. The property is located beside its core assets in the area.

The company also signed an agreement to dispose of assets in Manitoba for $93.2 million.

Production

Crescent Point raised its capital program this year compared to 2016 and says it is on target to deliver 2017 exit production growth of 10%.

Value play?

The stock traded for $22 per share at this time last year when WTI oil was selling for US$48 per barrel.

Based on those numbers, Crescent Point was either severely overvalued 12 months ago, or the current price is reflecting some strong future risks.

If production were falling, or the debt situation were threatening the company, the discount would make more sense, but production is rising, and the net debt position of about $4 billion is not currently an issue.

In fact, Crescent Point is in compliance with all its debt covenants and has adequate buffers to boot.

Should you buy?

If WTI oil prices are destined to take another run at US$40, Crescent Point and its peers are going to come under additional pressure, and an extended dip could put the remaining dividend at risk.

However, if you believe oil is headed higher over the near to medium term, this stock has some significant upside potential, and it might be worthwhile to consider a small contrarian position at the current price.

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aswalker