Crescent Point Energy Corp.: At What Point Is This Stock a Buy?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is trading at new 12-month lows, and investors who have been waiting for a chance to pick up the stock are wondering if this is the right time to buy.

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

Value play?

At the time of writing, Crescent Point trades for $12.60 per share, and WTI oil is selling for US$46.50 per barrel.

A year ago, WTI oil was pretty much at the same price, yet Crescent Point traded for about $20 per share.

The debt situation remains under control, and Crescent Point expects to end 2017 with average daily production that is 10% above last year, so either the stock was overpriced 12 months ago, or the pullback is starting to look overdone.

Oil market

Oil prices have now given back all the gains that occurred in the wake of OPEC's supply cut announcement late last year.

OPEC and a handful of other producers, including Russia, agreed to reduce global production by up to 1.8 million barrels per day through June 2017.

Investors initially believed the pact would hold, and oil subsequently rallied above US$55 per barrel, but crude has trended lower in recent weeks.

The slide began when Russia reported February production that was flat compared to the previous month. Russia was expected to reduce output by up to 300 million barrels per day under the agreement.

OPEC's overall compliance has been pretty good, although some analysts believe Saudi Arabia has shouldered the bulk of the load.

At the same time, U.S. production is on the rise, providing a headwind to any potential price gains coming from the OPEC cuts.

Dividend

Crescent Point used to be one of Canada's dividend darlings, but the oil rout forced management to reduce the monthly payout from $0.23 per share to $0.10, and then again to the current distribution of $0.03.

At the moment, that translates into a yield of 2.8%.

Crescent Point says it needs WTI oil to average US$55 per barrel to hit a total payout ratio of 91%, so there is a risk the dividend could be cut again if oil continues to slide and stays lower for an extended time.

Should you buy?

Contrarian investors are probably getting excited at the stock's current price. It's easy to understand why, as Crescent Point has top-quality reserves, ample liquidity, and a well-respected management team.

If oil is destined to recover in the near to medium term, this stock has some serious upside potential.

At this point, however, it looks like oil could go lower, and a sell-off towards US$40 would probably hit Crescent Point and its peers quite hard.

As a result, I wouldn't back up the truck today, but contrarian investors who believe oil will move higher might want to consider a small position on further weakness.

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aswalker