Crescent Point Energy Corp.: Time to Catch This Falling Knife?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) stock is a falling knife right now, as it is down over 31% year-to-date. Oil recently pulled back to the US$45 levels after rallying as high as US$56, but Crescent Point is actually lower than it was during oil's bottom in the early part of 2016.

I believe the company is in better shape than it was earlier last year, but contrarian investors should still be careful because there's a ton of volatility surrounding Canadian oil stocks of late, and you could potentially get hurt by attempting to catch this falling knife, even if the valuations appear attractive at current levels.

Crescent Point releases satisfactory Q1 results

Crescent Point recently reported its first-quarter results for 2017, which were not as bad as the current stock price would suggest. Funds from operations were at $427 million, or $0.78 per share diluted. Approximately $465.5 million was spent on drilling and development activities with total capital expenditures reaching $532.1 million.

As a part of the company's risk-management program, Crescent Point hedged 3.8 million barrels of oil in Q1. About 41% of the 2017 oil production is hedged at the $71 per barrel of oil.

Crescent Point was quite busy this quarter. The company finished an acquisition involving about 8,500 net acres in North Dakota for US$100 million. These lands are contiguous with Crescent Point's existing lands and are expected to provide ample growth potential with about 50 high-quality drilling locations. Crescent Point also reached a deal to dispose of its Manitoba non-operated conventional assets for $93.2 million worth of cash.

The management team has been doing everything it can to cut costs and maintain a sustainable payout ratio. Capital expenditures are expected to hit $1.45 billion this year, and the dividend, which currently yields 2.9%, will be safe as long as oil prices stay around the US$50 range, which will put the payout ratio at about 91%. Oil prices are at US$45 right now and could be headed lower, so could another dividend cut be in the cards?

Free cash flow for Q1 wasn't quite enough to cover the current dividend, so it's possible that another cut may be on the horizon if oil continues its decline. But if you're a contrarian investor, the safety of the dividend is probably the least of your concerns.

Should you catch this falling knife?

I think the stock is way oversold, but there could be more downside ahead as many foreign investors have lost confidence in Canada's energy sector. There are a lot of unknowns right now, but one thing is certain: the stock is ridiculously cheap with a 0.7 price-to-book multiple, which is less than half of the company's five-year historical average price-to-book multiple of 1.5.

There's going to be a ton of volatility ahead, but if you're a contrarian investor who is bullish on the future of Canadian energy, then you might want to consider incrementally buying shares on the way down.

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Date
2025/09/02
Date Created
2017/05/09
Author
joefrenette