



Should Investors Buy Crescent Point Energy Corp.?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) investors who purchased shares at any time in the past year have been on the wrong side of this losing proposition, as shares reached a new low this past Friday, trading as low as \$12.20 per share. The company is currently operating in the very challenging oil and natural gas markets, but the decline in oil prices is now close to two years in, and the new normal is about US\$50 oil.

While the financial success of this investment will be much more heavily dependent on the overall price of oil instead of the operating efficiencies of the company, investors wanting exposure to oil in their portfolios still need to find a name to add.

Shareholders may have very good reason to hold this name until oil trades at a higher price. Crescent Point currently offers investors a monthly dividend of \$0.03 per share. The annualized dividend of \$0.36 translates to a yield of close to 3% at the new 52-week low. To be exact, at a price of \$12, the dividend yield will equate to 3%.

Although earnings have turned negative over the past two years, the company is still showing positive cash flow numbers. In 2015, cash flow from operations (CFO) was close to \$1.95 billion, while the amount declined closer to \$1.52 billion for 2016. The good news for investors is that capital expenditures can be put on hold during these difficult economic times. In 2016, depreciation accounted for over \$2.2 billion, while only approximately \$1.4 billion was invested into long-term capital expenditures. In 2015, the numbers were even further apart with a depreciation expense of \$3.1 billion and capital expenditures of only approximately \$1.6 billion.

Some good news for investors is that the losses incurred during these difficult economic times may be carried forward to reduce taxes payable when things turn around and the company returns to profit once again.

But wait ... there's more.

Investors purchasing shares of Crescent Point at close to \$12 per share will be buying a company which trades a discount to tangible book value. If we take the assets and remove the goodwill and the

liabilities, the tangible book value per share at the end of the first quarter is no less than \$17.25 per share!

If we break it down further, for every dollar an investor deploys into shares, they will receive close to \$1.40 in assets in addition to a dividend yield which is currently just under 3%. This may be a great bargain if the price of oil rebounds.

Investors need to understand that this is a cyclical name and be cautious of how much they are willing to invest and how long they are willing to remain patient. Although the dividend accounted for less than 20% of CFO in the previous fiscal year, dividends are never guaranteed; investors buying simply for income may need to look elsewhere.

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