



Crescent Point Energy Corp.: Thank You, Mr. Market

Description

It would seem that “Mr. Market” has done it once again, providing an attractive buying opportunity for those wishing to invest in the shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Mr. Market was an allegory belonging to the famous grandfather of value investing, Benjamin Graham.

Graham suggested that those participating in the stock market should imagine themselves dealing with a manic-depressive character named Mr. Market, who’s estimation of business values would swing dramatically from being overly optimistic to overly pessimistic.

Today, it would seem Mr. Market is a little down on his luck about the fate of Crescent Point.

Shares have fallen over 70% since oil prices collapsed in the summer of 2014; however, what’s more interesting is that over the past 12 months, while oil prices have stabilized, Crescent Point shares have lost half of their value.

Even more amazing is that the company actually produced a fairly strong Q1 to start the year, posting a net profit of \$0.22 earnings per share with revenues up an impressive 113%. Moreover, the company confirmed its monthly dividend of \$0.03 and announced that Q1 production came in ahead of guidance.

And yet, since those announcements, the company’s shares have fallen another 12%.

Throughout the oil downturn, management at Crescent Point has done an admirable job of keeping the company’s balance sheet intact. The company has been able to post positive free cash flow in each of the past five years and has actually been able to grow its free cash flow by 10 times over that same period.

Management and the board of directors have used the cash to make strategic acquisitions to shore up the company’s long-term future. The company has spent close to \$1.1 billion in acquisitions since 2014, buying assets on the cheap while oil prices have remained depressed.

While some investors may have been disappointed that the company cut its dividend twice — once in

2015 and once in 2016 — I would argue the company may be better off deploying resources in more opportune areas.

In addition to a string of opportunistic acquisitions, the company has also been able to pay off more than \$1.2 billion in debt maturities over the same period.

How much value is there?

Analysts are expecting the company to report earnings per share of \$0.27 in 2018. Accounting for depreciation expenses, working capital charges, and capital expenditures, this would leave the company with approximately \$2.10 of free cash flow per share.

This essentially tells us how much the company could pay out in dividends, if it chose to, and is one of the most reliable predictors of a business's true value.

Taking into consideration the \$2.10 of free cash flow and assuming a fairly conservative long-term growth rate of 5% per year, investors can expect to make a return of 25% compounded annually if they were to buy shares of Crescent Point today.

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