Crescent Point Energy Corp.: How Low Could it Go?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) continues to fall on weakening oil prices.

Let's take a look at one of Canada's former dividend stars to see if more pain could be on the way.

Dividend safety?

Crescent Point once paid a monthly dividend of $0.23 per share. The company had a solid track record of holding the payout steady through tough times, and many of the loyal shareholders thought the trend would continue at the onset of the latest oil rout.

Unfortunately, the pain in the oil patch has lasted much longer and gone deeper than anyone expected, and Crescent Point had to make some painful decisions to preserve cash flow.

The dividend initially dropped to $0.10, but it had to be cut again to the current monthly payout of $0.03 per share. At the time of writing, the yield is 3%.

In the Q1 earnings report, Crescent Point said it would hit a payout ratio of 91% if WTI oil averages US$55 per barrel through 2017.

Oil will have to strengthen through the end of the year for the company to hit that average, so investors should be prepared for a possible suspension of the payout if oil continues to slide.

Most dividend seekers have probably abandoned the stock by now. Current investors might welcome a decision to use the dividend money to pay debt or fund drilling activity.

Value play?

Crescent Point is an interesting pick because it offers significant upside potential if oil can muster a recovery through the end of the year and into 2018.

Production is expected to be 10% higher by the end of the year compared to the 2016 exit average, and Crescent Point's balance sheet is still in decent shape.

In addition, the company owns some of the best assets in the patch.

How low could Crescent Point go?

The trick right now is to decide where the bottom might be for oil.

Volatility continues, and OPEC's efforts to talk up the price are becoming less effective.

The latest rift between Qatar and its neighbours is also putting pressure on investor belief in OPEC's ability to deliver the production cuts it hopes to achieve.

If investors really get nervous, oil could retest US$40 on a quick drop.

In this scenario, oil stock would likely see another strong bout of selling, and Crescent Point could potentially slip below $10 per share.

When should you buy?

The stock is now trading close to $12 per share.

Investors who think WTI oil has limited downside from here might want to start nibbling. Any jump in oil from the current price of US$47 per barrel back above US$50 would likely trigger a significant rally in Crescent Point's stock.

If oil can drift toward US$60 by the end of the year, there is a reasonable shot at 50% upside.

At this point, however, I would keep any position small, especially if you think oil could take a run at US$40 in the coming months.

It might be worthwhile to risk missing a bit of the initial upside and wait for a confirmation of the bottom.

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