Crescent Point Energy Corp.: Is the Sell-Off Now Overdone?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) just hit a new 12-month low, and contrarian investors are wondering if the stock is simply getting too cheap.

Let's take a look at one of Canada's former dividend stars to see if it deserves to be a contrarian pick today.

Oil outlook

Oil prices remain volatile as investors try to figure out whether or not efforts by OPEC to reduce global supply can offset rising U.S. production enough to drive oil prices higher.

What's the story?

WTI oil rallied through 2016 from below US$30 per barrel at the beginning of the year to above US$55 in December. The initial support came on hopes OPEC would reach an agreement to cut production, and the final surge arrived after the deal was announced in late November.

Under the arrangement, OPEC and a few other producers, including Russia, set a goal of reducing supply by 1.8 million barrels per day through the end of June 2017.

The group recently announced an extension of the deal through March 2018.

Oil traders were initially bullish on the pact, and oil prices held above the US$50 mark for the first part of this year, but concerns began to emerge that OPEC and its partners might have trouble meeting the goals.

Russia's reduction efforts stalled out in February, and pundits believe Saudi Arabia is carrying the burden for some of the OPEC members who are not hitting their goals.

The latest sell-off in oil has caught some people by surprise, as the recent decision by OPEC and its cohorts to extend the production cuts would normally have provided support to oil prices.

Instead, WTI oil is still falling and is now back below US$45 per barrel.

Headwinds

Rising U.S. production is part of the story, as is a new report that shows OPEC and its partners actually increased output by 336,000 barrels per day in May.

American oil production has increased 10% in the past year, driven by a resurgence of shale oil output. Many analysts see the trend continuing, and that could provide a headwind to any potential price gains.

The U.S. Energy Information Administration is also providing an incentive for traders to sell, saying non-OPEC oil production growth in 2018 is expected to outstrip overall demand growth.

Should you buy Crescent Point?

Crescent Point now trades for close to $11 per share, which is 50% below the 12-month high.

The company owns attractive assets, is growing production, and maintains adequate financial flexibility to ride out further weakness in the market. If you think the oil sell-off is near its bottom, Crescent Point offers some attractive upside potential from the current price, and it might be worthwhile to start nibbling.

That said, investors should be careful. There is a near-term risk for oil to move much lower, potentially below US$40 per share. If this happens, Crescent Point could slip to $10.

At this point, I would keep any new position small, or even stay on the sidelines until there is strong evidence the downturn has run its course.

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