Crescent Point Energy Corp. Stock Price Hits $10: Time to Buy?

Description

The recent downdraft in the oil market is sending many producers to new 12-month lows.

Let’s take a look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see if it deserves to be a contrarian pick right now.

Tough times

Crescent Point used to be a dividend darling in the Canadian oil patch with a monthly distribution that appeared to be bullet proof.

The company kept the payout steady through the Great Recession, and loyal investors believed Crescent Point could do the same when the current downturn began in 2014.

To its credit, Crescent Point held out longer than many of its peers, but as the rout continued and the benefits from hedged positions began to erode, management had to reduce the payment to preserve cash.

The distribution initially dropped to $0.10, but Crescent Point was forced to cut it again to $0.03 per month, where it currently stands.

At the time of writing, the stock trades at $10 per share, so the annualized dividend yield is now 3.6%.

Most dividend investors have abandoned the stock, and while the current yield might be attractive, I wouldn’t bet on the distribution remaining in place, especially if WTI continues to trade below US$45 per barrel.

In the Q1 2017 earnings report, Crescent Point said it expects to generate a total payout ratio of 91% at WTI of US$55 per barrel.

Upside potential

On the positive side, value investors might want to start kicking the tires.

Crescent Point's balance sheet is in decent shape, and the company owns a very attractive asset base.

Production is expected rise 10% per share by the end of the year compared to 2016 exit output, and Crescent Point has 10 years of drilling inventory located in its Williston Basin assets alone.

Should you buy?

Everything depends on where you think oil is headed in the next six months and through 2018.

Analysts are all over the map, with some calling for a plunge to US$30 and others saying oil could hit US$70 next year.

Both predictions could turn out to be correct.

If you are an oil bull and believe the market is headed back above US$50 per barrel in the near term, Crescent Point looks attractive at the current price.

However, if you are in the US$30 camp, it would be best to stay on the sidelines and wait for confirmation the pullback has run its course before starting a position in the stock.

I don't think we are headed back to US$30 per barrel, but I'm also not convinced prices have bottomed. As such, I think a better entry point could be on the way.

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