Can Crescent Point Energy Corp.'s Share Price Double?

Description

Like many other energy stocks, the shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) have fallen a lot since the plummet of the oil prices in 2014. Since 2015, the shares of the stock has fallen 70%.

I don't know if it has bottomed yet, but the analyst at **Bank of Nova Scotia** thinks the stock can more than double. The stock trades at $9.22 per share, and he has a 12-month target of $20 per share on Crescent Point, which represents nearly 117% upside potential.

Before investors all run out to buy the stock, let's think about why it trades at such a huge discount to this target price. It seems to be a high-risk, high-reward investment. And investors certainly need a lot of patience and confidence in the company.

How high does the WTI price need to be?

A recent report from Scotia Capital indicates Crescent Point has a WTI breakeven price of below US$40 per barrel. This means the company can sustain its operations at that price.

To cover for its dividend, it'll require a WTI breakeven price of about US$43 per barrel. The industry breakeven price is about US$48 per barrel across 30 energy companies. So, Crescent Point is in a decent position on that front.

However, if we account for the exploration and development costs, Crescent Point will require a much higher breakeven price. The analyst at *Morningstar* estimated that Crescent Point has a full-cycle breakeven WTI price of more than US$60 per barrel of oil equivalent, while the WTI price sits at about US$46 per barrel currently, which is very far off.

Is Crescent Point's dividend sustainable?

Not too long ago, Crescent Point cut its dividend — in 2015 and 2016. This was done because there wasn't sufficient cash flow to go around for both the dividend and investing into the company. Further, the company had to strengthen its balance sheet. Currently, it has a debt-to-cap ratio of 30%.

At the recent quotation, Crescent Point offers a yield of 3.9%. However, it doesn't generate enough earnings to cover its dividend.

The situation looks much better if we base the payout ratio on cash flow. The company is paying out about 12% of its operating cash flow as dividends. However, if we account for the net capital spending of about $1.5 billion, Crescent Point's payout ratio would be slightly over 100%.

Investor takeaway

Like other oil and gas producers, the price of the underlying commodity prices will directly affect Crescent Point's profitability.

Based on the current WTI oil price of about US$46 per barrel, the company can sustain its operations, but there's little margin of safety for its dividend. For its share price to double, oil prices need to go much higher from here.

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