Crescent Point Energy Corp.: Should You Buy the Bounce?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) just bounced 10% off its 12-month low, and contrarian investors are wondering if it is finally time to buy the stock.

Let's take a look at the current situation to see if Crescent Point should be in your portfolio.

Oil market

WTI oil traded for $57 at the beginning of the year, while optimism was still high that OPEC and a few other producers, including Russia, would reduce oil production by 1.8 million barrels per day.

Since then, oil has been on a downward trend, and dipped below US$43 in June.

What's going on?

Confidence in OPEC's ability to drive prices higher through production cuts is waning, especially after reports suggesting compliance among the pact members has slipped and production from exempt members, including Nigeria and Libya, is rising.

OPEC's June output actually rose compared to the previous month.

In addition, U.S. producers continue to pump oil at an increasing rate. The latest International Energy Agency (IEA) report says American oil production just hit its highest level since July 2015.

OPEC and its partners extended their agreement to cut supplies through Q1 2018, but that hasn't provided much support to prices.

Is the downturn over?

Despite the negative statistics, WTI is actually at a six-week high above US$47 per barrel.

Weakness in the U.S. dollar is likely responsible for a large part of the recovery, but strong demand coming out of the U.S., China, and Germany might also be a factor. In addition, short sellers could be taking profits ahead of an anticipated slowdown in U.S. output now that WTI oil is below US$50 per barrel.

Oil could continue to move higher in the near term, but there isn't much evidence of a reduction of the global oil glut, so calling an end to the broader price slide might be a bit premature.

Should you buy Crescent Point?

Crescent Point was a $45 stock three years ago. Today, investors can pick it up for less than $10 per share.

The company owns attractive assets and is growing production despite the ongoing weakness in the market. In fact, Crescent Point is targeting a 10% increase in output by the end of the year.

If you think oil has hit its 2017 low, it might be worthwhile to start nibbling on the stock. Any surge in oil prices back above US$50 would likely send the share price significantly higher.

The recent 10% pop is a good example of how much upside torque the stock has when sentiment changes.

That said, I would keep any contrarian position small for the moment, just in case the mini-rally in oil is just another head fake before a dip back toward US$40.

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