Crescent Point Energy Corp. Down 50% YTD.: Is There Upside?

Description

It has been an awful year for investors of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) with shares down 50% since the start of the year. Stretch back to 2015, and shares are down by 70%. Along the way, the dividend has been cut twice — in 2015 and 2016. For those that held on, they're feeling the pain for their loyalty.

But whenever shares are this cheap, prospective investors begin to wonder if there is significant upside available. A bad investment can quickly become a good one when the price is right. So, is Crescent Point a buy at these prices?

Spot WTI crude is trading at a little over US$47 per barrel. According to analysts at Scotia Capital, for Crescent Point to fund its operations, it requires WTI to be above US$40. Add in the 3.87% yield, and the needed WTI price increases to US$43.

So, if we just look at what Crescent Point is doing right now, the company is in an okay position to continue running the business.

The problem is that there are exploration and development costs. *Morningstar* analysts actually suggest that Crescent Point requires US$60 per barrel oil for the company to actually be able to fund the entire business. And when you look at that sort of a price, things begin to get a little uncomfortable. Oil has been on a constant roller coaster, but it has rarely reached that US$60 price.

That explains why the stock price is as low as it is. However, we need to determine if the price is going to appreciate enough to justify your investment.

Personally, I don't see that happening primarily because there is such an oil glut. In the beginning of the year, when oil prices were just under US$60, there was excitement because OPEC had agreed to cut back on its production. That would create an environment where demand could finally catch up to the amount of oil being produced.

The problem was that companies in Canada and the United States just kept pumping. According to the International Energy Agency, production in the United States hit its highest levels since July 2015.

And OPEC isn't doing any better; its production increased, as reported in June. If everyone is producing more oil, there's little reason to expect that demand will be able to keep up with the constant supply.

Ultimately, this will keep the price of oil depressed, putting Crescent Point in a difficult position. Although it can pay the dividend with US$43 per barrel oil, it can't fund the entire company, including exploration and development, so something is going to have to give.

If history has shown us anything, it's that Crescent Point isn't afraid to cut the dividend.

Could Crescent Point have an amazing revival? Could oil prices begin to rise? Yes to both questions. Unfortunately, I don't see where the demand will come from to push oil prices higher. Therefore, my recommendation is to deploy your cash into other companies that have safer dividends and more upside.

If you absolutely believe oil is going to increase, start a small contrarian position in the company. But focus the bulk of your portfolio on higher-quality companies.

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jaycodon