Contrarian Investors: Is Crescent Point Energy Corp. Attractive Today?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) continues to slide, and contrarian investors are wondering if the pullback is simply getting out of control.

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

Oil market

Oil prices are trending lower again after a sharp recovery from the pullback that ended in June.

At the time of writing, WTI oil is US$49 per barrel, up from US$42.50 on June 21, but down from the US$55 high the market saw earlier in the year, and off slightly from where it was at the end of July.

What's going on?

OPEC and a handful of other countries have committed to reducing oil production by 1.8 million barrels per day through March of next year in an effort to balance the market and drive prices higher.

When the deal was first announced late last year, the market thought OPEC would succeed in its plan, but rising production from exempt members, such as Libya and Nigeria, have hindered the overall effort, and compliance among some of the other countries is faltering.

In addition, U.S. production is up about 10% in the past year.

Going forward, investors should probably expect the tug-of-war to continue, and that means oil is unlikely to move significantly higher.

Crescent Point

Crescent Point's stock price dropped below $9 per share last week, breaking through a point very few investors would have thought was possible just three years ago, when the shares traded for more than $40.

Fans of the company point to the quality of the reserves, a strong management team, growing production, and the stable balance sheet as reasons to be optimistic.

As of June 30, Crescent Point had $1.5 billion in unused available credit lines and was compliant with all of its lending covenants. The company's Q2 2017 production came in 5% higher than the same period last year, and Crescent Point is targeting 2017 exit production growth of 10% on a per-share basis.

The company still pays a monthly dividend of $0.03 per share, which now provides an annualized yield of 4%.

Should you buy?

The oil sector will likely limp along for some time, and there is a risk we could see another bout of heavy selling in the coming months.

If oil takes another run at US$40 per barrel, Crescent Point could feel more pain, and now that the stock is below $10, there is a risk of big percentage moves to the downside in a very short period of time.

That said, Crescent Point remains an attractive pick in the basket of beaten-up producers, and the upside potential is significant if oil can find a way to trend higher heading into 2018. So, a case could be made for a contrarian bet on further weakness if you are an oil bull.

At this point, there is just no way of knowing where we are headed next, so I would keep any new position small.

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