Is Crescent Point Energy Corp. About to Skyrocket?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) shares soared 4.18% on Thursday thanks in part to surging oil prices which broke the $50 level for the first time in months. Many contrarian investors have tried to catch the falling knife in CPG as shares continue to plunge.

Although losses piled up in a short period of time, the only losers would be the ones who gave up and sold their shares at a hefty loss. I believe CPG is one of the best turnaround plays out there today, but only to patient investors who wouldn't think too much of double-digit percentage losses over the course of just a few weeks.

Oil prices are considerably higher than they were in early 2016, but shares of CPG, as well as many other Canadian energy firms, continued to get hit. The management team at CPG has been doing a great job of managing risk, and they've made all the right moves to "batten down the hatches" for a potentially painful long-term environment.

Strong second quarter a sign of good things to come

In the last quarter (Q2 2017), production was up slightly more than what analysts were expecting. In addition, funds from operations (FFO) per share for the quarter clocked in at $0.76, beating the analyst expectations by ~4%.

The management team also boosted its 2017 production guidance by a slight amount, while sticking to the original guidance with regards to capital expenditures. Although the guidance boost was small, I believe it's a sign that CPG is taking the right steps to get back on the right track.

Going forward, it's expected that CPG will proceed with non-core asset sales to further strengthen its balance sheet, which is already more attractive than many of its peers in the oil patch.

Bottom line

Analysts at TD Securities have a $17 12-month price target for shares of CPG, which currently represents a whopping 84% upside, not including the fat dividend, which currently yields 3.9%. That sounds very promising; however, it's important to keep in mind that you're probably not going to see any of this upside if you're unwilling to deal with some ugly volatility and large short-term losses, both of which are very likely.

Short-term pain for long-term gain, right?

Although analysts are bullish on CPG, it's important to take 12-month price targets with a grain of salt. If you choose to sell when shares are deep in the red in a year from now, then do yourself a favour and don't bother making such a contrarian bet.

I believe CPG is a solid turnaround play for contrarian oil investors who are willing to buy and hold for the next five years and beyond. The bottom probably isn't in yet, but if you can stomach losses in the near term, you'll likely be rewarded in a few years down the road as investors gradually regain confidence in the company. There's no bell that goes off when shares hit a bottom, so don't try to hunt for one. Instead, use a dollar cost averaging approach to build your position, but only use what's in your high-risk wallet!

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Date
2025/08/17
Date Created
2017/09/18
Author
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