Crescent Point Energy Corp.: Is it Best to Wait on the Sidelines?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) had a great September with shares increasing by over 25%. However, since then, shares have been on the slow decline, giving up over 12% of value. Was September just a blip, or is this just a short-term consolidation before pushing higher?

If oil prices continue on their trajectory, then yes, Crescent Point is certainly worth looking at. Since bottoming out in June at US$42.53, the price of WTI crude has improved; it currently trades right around US$52 per barrel. But is this enough?

That's where things get a bit uncertain. At current production, analysts at Scotia Capital believe WTI needs to be US$40 to fund its operations. Add in another US$3 per barrel to pay the $0.03 monthly dividend. However, Crescent Point also has a serious capital spending budget, which pushes the required price per barrel far higher. Analysts at *Morningstar* have argued that US$60 per barrel is needed to fund the entire business.

That's why Crescent Point concerns me. If oil prices don't reach those levels, something will have to give. Crescent Point hasn't been afraid to cut the dividend before, and I don't think the company would hesitate if it meant it could continue with its capital-spending investments.

So, we have to determine whether oil prices are going to increase or not.

Unfortunately, analysts are split on this. On one hand, consumption has grown faster than was originally expected along with a continued focus on cutting by members of OPEC. On the other, U.S. production has been unpredictable. So, the balancing act comes down to whether or not demand and cuts by OPEC will be stronger than the potential for massive amounts of production by U.S. companies.

Crescent Point could offer a glance into which way this balancing act is going to go. Management projects that production will increase by 4.5% going into next year. If other companies are also projecting that, I'm curious whether demand will keep up or not.

Nevertheless, there are still some things to like about Crescent Point. Primarily, it's the fact that the business is incredibly undervalued. With a market cap of $5 billion, but equity after debt equal to $9.6

billion, there's quite a bit of room for growth before Crescent Point could be called "fairly valued."

As can be seen, there are obvious positives and negatives about Crescent Point that have to be considered before deploying your hard-earned investment dollars.

The positives are that it trades at a significant discount to its true value, and that it can fund its operations and dividend. The negatives are that it needs the price of oil to continue going higher and stay there if it is able to fund its exploration and discovery.

My recommendation is to take a small position in Crescent Point. If oil prices continue moving higher, Crescent Point's shares will follow, and you can buy more as momentum builds. However, if oil prices retreat, you've only invested a small amount of money. And if nothing else, you'll earn $0.03 per month in dividends.

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