Why it's Almost Time to Jump Into This Oil Company

Description

Over the past few months, shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) have been on a wild ride, moving from a low of less than $9 per share to more than $11, as the rising price of oil has pulled shares up alongside it. The current problem experienced by investors, however, is that the price per share is no more than ~$9.14.

As shares have given back almost all of the gains that were achieved over the past three-month period, it has become clear that the rally was only a short-term bump. The good news for those who missed out on the breakout is that shares of the company have retracted once again and offer a dividend, which is paid on a monthly basis, of close to 4%.

As shares decline in value once again, investors who seek either capital gains or a dividend yield will become increasingly interested in this investment.

For those seeking dividends, a lower shares price leads to a higher dividend yield, which, in this case, could exceed 4% should shares of the oil company decline to less than $9. As monthly dividends are in high demand by many retirees, the shares price may form a bottom around this price, as the dividend yield would be enough to hold it up. For the 2016 full fiscal year, the dividends paid represented only 17% of cash flows from operations (CFO).

When considering the first three quarters of the current fiscal year, the dividends account for only 12% of CFO, as the company has resumed its capital expenditures, which are, once again, in line with the depreciation expense. As of the most recent quarter, the company reported close to $75 million in cash, allowing for the dividend to be sustained for at least the next two quarters. To boot, accounts receivable were four times that amount!

For investors seeking capital appreciation, shares of the company have once again declined close to a support level (previously $8 per share) and trade at a very large discount to tangible book value. When taking the company's assets and subtracting both liabilities and goodwill, we can figure out that there is an equity value of close to $17 per share. If the company hypothetically were to shut down and enter an orderly sale of all assets, then shareholders could receive up to $17 in value for every share they owned. Who wouldn't want to pay $9 per share?

Although many investors are apprehensive to commit any money to a company that could potentially have liquidity and solvency issues, it is important to realize that in spite of very difficult times, a dividend is still being paid to shareholders, and the company has been profitable in two of the past three quarters.

After maintaining positive CFO for the past several years, investors have a significant amount of upside with this name.

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