Why Crescent Point Energy Corp. Is Among the Best Ways to Play Higher Oil

Description

Oil continues to surge higher, buoyed by declining inventories and OPEC's decision to extend production cuts through to the end of 2018. There are signs that higher oil prices could be here to stay with the North American benchmark West Texas Intermediate approaching US$60 per barrel. This will be a boon for beaten-down energy stocks, leading many pundits to speculate as to which oil stock is the best way to play higher crude.

Among the hardest hit by the prolonged slump in crude have been upstream oil producers. While many have enjoyed a solid rally in recent months because of higher oil prices, one-time dividend stalwart **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has lagged behind its peers. This, along with the quality of its assets and operations, makes it an attractive play on higher crude.

Now what?

One of Crescent Point's key strengths is the quality of its oil assets located in the relatively low risk jurisdictions of Canada and the U.S. That oil acreage gives it 958 million barrels of oil reserves, which are weighted predominantly to higher-value light crude.

Despite oil's prolonged weakness, Crescent Point has continued to invest in its existing operations to steadily expand production. For the third quarter 2017, Crescent Point reported production of 176,000 barrels, which was a healthy 4% increase year over year. The ability to grow oil production is an important attribute in an environment where the price of crude is rising.

Furthermore, 90% of that production is weighted to higher-value oil and natural gas liquids, meaning that Crescent Point is not significantly impacted by the ongoing weakness of natural gas and is able to take full advantage of higher prices.

Crescent Point's netback, which is an important measure of profitability for an upstream oil company, prior to the impact of derivatives, improved by 9% year over year. That was despite royalties as well as operating expenses rising by 13% and 6% year over year, respectively. Crescent Point's general and administrative expenses for the quarter fell by an impressive 22%, underscoring that the company's attempts to control costs is gaining traction.

These solid operational results saw adjusted cash flow from operations rise by 6% compared to a year earlier and report adjusted net income of $0.06 per share compared to a $0.04 per share loss for the third quarter 2016.

So what?

Crescent Point will continue to report solid results for the foreseeable future, primarily because of the strength of its operations and higher oil.

In fact, the outlook for crude is becoming increasingly positive. The extension of the OPEC production cuts to the end of 2018 along with declining Venezuelan oil production, falling inventories, and other Middle East supply constraints are all helping to buoy the price of crude. Demand for oil and other petroleum products should also grow because of stronger global economic growth. It was only five months ago that the IMF upgraded its outlook for the global economy and increased its forecast GDP growth rates. This makes it feasible that West Texas Intermediate could reach US$60 before the end of the year, giving Crescent Point's bottom line a healthy bump.

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