Is it Time to Finally Buy Crescent Point Energy Corp.?

Description

The price of oil has risen significantly in the past six months, and investors are wondering if the rally could extend right through 2018.

Let's take a look at the current situation to see if this might be a good time to pick up **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Oil outlook

WTI hit a 2017 low near US$43 per barrel in June, but it has since recovered above US$55, with many pundits calling for a surge above US$60 in the near term.

The bulls point to the extension of OPEC's commitment to reduce oil production by 1.8 million barrels per day. The consortium, along with a handful of other producers, including Russia, signed the original pact about a year ago and has announced a number of extensions to the program, which was originally set to expire in June 2017.

Whether or not the objectives will be met is yet to be seen, but traders are still putting faith in the rhetoric.

The market is also finding some support from strong global demand.

Oil bears say the rally through the back half of 2017 is not sustainable. Part of the theory rests on a lack of confidence in OPEC's ability to actually cut production and reduce global supply as much as the group projects.

Even if OPEC manages to hit its goals and push prices higher, bears think the increase in WTI oil prices will trigger another wave of U.S. drilling. American oil production is already expected to hit record levels in 2018, as shale producers ramp up output.

Where oil goes next year is anyone's guess, but those on the bull side of the fence might want to consider picking up a few shares of the beaten-up producers.

Is Crescent Point oversold?

At the time of writing, WTI oil trades at US$57 per barrel, and Crescent Point can be picked up for $8.50 per share. A year ago, oil was about US$51 per barrel, and Crescent Point traded for more than $18 per share.

The company has increased production this year and expects 2017 exit output to be about 10% higher than 2016. In addition, the company is selling non-core assets and plans to use the proceeds to reduce debt.

Crescent Point's monthly dividend is now $0.03 per share compared to the $0.23 per share investors were getting before the oil rout began, but the current payout still provides a 4% yield.

If oil prices can continue their gains, the distribution should be safe.

Canadian oil is selling at a steep discount these days, so that is having an impact on the producers, but Crescent Point still looks oversold.

Should you buy?

Investors have to be oil bulls to own any of the producers today. If you fall in that camp, it might be worthwhile to add a bit of Crescent Point to the contrarian portfolio while the stock remains out of favour.

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