Beat the Market by Investing in This Canadian Oil Stock

Description

Oil has surged higher in recent days, buoyed by rumours that OPEC and Russia will continue collaborating to re-balance global oil markets and rising geopolitical tensions, notably in the Middle East. While West Texas Intermediate has gained almost 10% over the last three months, most Canadian energy stocks have weakened over the same period. Upstream oil and gas producer **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has seen its value decline by almost 4% over that period, creating an opportunity for investors.

Now what?

Crescent Point has an impressive history of making acquisitions that have bolstered its oil reserves and production. While its acquisitions activity has quietened since the deep slump in crude commenced, the driller continues to add to its reserves and production. It finished 2017 reporting a 5% year-over-year increase in oil reserves and production.

There is every sign that this trend will continue throughout 2018.

Crescent Point has committed $1.8 billion to drilling, well development, and seismic activities, which is 10% higher than the $1.63 billion invested in those activities during 2017. That renewed investment in exploration and development activities will further add to reserves and oil production.

The company expects 2018 production to average 183,500 barrels daily, which represents a 4% increase over 2017. What has been surprising in a difficult operating environment weighed down by sharply weak oil has been Crescent Point's ability to maintain the profitability of its operations.

For 2017 the driller reported a netback, which is a key measure of operational profitability, of $31 per barrel — $1.19 higher than a year earlier. That netback should grow during 2018 because of Crescent Point's focus on reducing costs along with oil rising to over US$65 per barrel in recent days.

There is every sign that higher oil is here to stay with a range of emerging geopolitical hazards set to constrain oil supplies, while the global economic upswing now underway is driving demand growth to unanticipated highs.

Importantly, Crescent Point's production is predominantly weighted to light and medium crude which are not discounted as heavily as Canadian heavy crude blends to WTI. That means its operations and assets are highly profitable in the current operating environment.

Crescent Point has moved to protect its operations and profitability from another downturn in crude. It has hedged 51% of its first half 2018 production as well as 41% for the second half at an average price of just over $70 per barrel. That in conjunction with a solid balance sheet where net debt totals $4 billion and where there are no material near-term debt maturities means that Crescent Point is well positioned to weather any further downturns in the price of oil.

So what?

The attractiveness of Crescent Point as an investment becomes quite clear when it is considered that its oil reserves have been independently assessed to be worth $24.44 per share after applying a 10% discount. That is almost three times Crescent Point's current stock price, indicating that once the market is confident of a sustained material recovery in the price of oil. its stock could easily double or more in value. Now that the outlook for oil has improved markedly. it is time for investors to add Crescent Point to their portfolios.

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