



## Why This Canadian Shale Oil Play Is an Easy Double-Up in 12-24 Months!

### Description

*Editor's note: A previous version of this article stated Crescent Point's dividend yield was 6.5%. It has been correctly changed to 3.8%.*

For many Canadian investors, looking for shale oil plays often requires investing south of the border in a number of companies that have operated in some of the continent's most prominent and oft-discussed formations. Finding quality shale oil companies in Canada is often not the focus of investors, with the majority of the country's oil production (more than 80%) devoted to oil sands development, natural gas, and other related activities.

The company I will focus on in this article is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), [complementing my previous research into this sector](#) on companies such as **Encana Corp.**

### First of all, why shale?

Shale oil differs from the heavy crude produced from Canada's oil sands in a number of different ways. Simply put, shale oil is a different grade of oil than typical Albertan oil; shale is much lighter than the heavy, sludgy oil produced from the tar sands, and it costs less to transport due to the fact that most Western Canadian Select (heavy oil) requires condensate to transport this product to refineries concentrated in the U.S. market. Shale oil, sold at WTI prices (currently approximately \$18 per barrel higher than WCS), has increased in attractiveness to investors due to the relative premium producers receive.

Shale oil has largely remained underdeveloped in Canada when compared to the U.S. and remains one of the most significant investment opportunities for commodities investors in Canada, in my opinion, at this point in time.

### Why Crescent Point?

Crescent Point is a company which represents a very interesting long-term play for investors considering adding shale production to their portfolios. The company recently spent more than \$110 million to buy assets in the East Duvernay shale formation, making this company one of the largest

asset holders in this area. Crescent Point has purchased more than 142,000 hectares of drilling rights, putting the company in an interesting position, as it holds most of the cards in the Canadian shale space, with a tremendous amount of long-term potential.

What Crescent Point decides to do with its drilling rights remains to be seen, however it appears the company intends to ramp up production meaningfully. While the company has only drilled approximately a dozen wells, expectations are that a significantly larger percentage of the company's top- and bottom-line income will be generated from shale in the next decade or two.

Fundamentally, Crescent Point remains a screaming bargain. The oil producer currently trades at around half of its book value, despite trading above book value each year since 2009. With a stable of assets which, if anything, has increased in relative value (especially considering the addition of shale assets to the company's portfolio), I expect to see a reversion toward longer-term levels, resulting in a double-up in the next one to two years. My take is that as shale oil continues to grow in importance to Crescent Point, the company will have the potential to easily outpace its peers over the next decade or so.

Crescent Point's dividend of 3.8% remains very attractive and is supported by very strong earnings, which are likely to continue to grow, as the company focuses on paying down debt and restructuring its production toward shale and away from heavy oil.

Stay Foolish, my friends.

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