Is This 1-Time Energy Patch Darling the Best Way to Play Higher Oil?

Description

While oil has gained around 18% since the start of the year to see West Texas Intermediate (WTI) trading at US$70 a barrel, one-time dividend darling and upstream oil producer **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has failed to keep pace gaining a mere 4%. This has created an opportunity for investors seeking exposure to crude to cash in on higher oil prices.

So what?

Crescent Point is one of Canada's largest upstream oil and gas producers. It is focused on the Williston Basin in Saskatchewan, which in 2017 was responsible for over 100,000 barrels of the company's daily oil production. The driller has over four million net acres and net oil reserves totaling 893 million barrels, which have been independently valued $13 billion after tax and discounted by 10% in accordance with industry methodology. That translates to $23.50 per share, or more than double Crescent Point's market value, thereby indicating the considerable potential upside available for investors.

What makes Crescent Point even more appealing are its low breakeven costs, which were estimated at US$40 a barrel, thereby highlighting just how profitable its operations are in an environment that sees WTI trading at US$70 per barrel.

More important, Crescent Point reported a solid first quarter 2018.

Oil production of 178,418 barrels daily exceeded budget expectations and was 3% greater than a year earlier. That production was 90% weighted to oil and other petroleum liquids, thereby indicating that the impact of the prolonged slump in natural gas will have little impact on Crescent Point's earnings.

The profitability of Crescent Point's oil acreage is highlighted by the solid netback of $32.28 per barrel produced for the quarter, which was almost 4% higher than the equivalent quarter in 2017.

As a result, the company is on track to achieve its 2018 guidance of average daily production of 183,500 barrels, which is almost 3% higher than 2017. That production growth is a positive amid an increasingly optimistic operating environment in which crude is rallying ever higher.

Crescent Point is also focused on progressively expanding its U.S. production, which will reduce the proportion of its oil output that is subject to the discount applied to Canadian crude blends. This will further help improve its bottom line. This steady production growth will continue because Crescent Point has boosted its 2018 investment in drilling and development activities by 10% year over year, thus positioning the company to further grow its oil production in 2019.

This driller has established a hedging strategy to mitigate the risk of oil weakening again. The implementation of this plan has established a price floor of over $70 a barrel for half of Crescent Point's 2018 production. And this, in conjunction with a solid balance sheet and net debt of just over two times funds flow from operations with no material debt maturities until 2020, endows Crescent Point with considerable financial flexibility.

Now what?

Overall, Crescent Point is an appealing play on higher oil, and its stock should surge in value as its production and hence earnings steadily grow. Investing in the company doesn't come without risk, however. Aside from the potential for oil to drop sharply in price, which appears increasingly unlikely, Crescent Point has been a serial diluter of existing shareholders issuing stock to fund acquisitions. That strategy appears to have been curtailed somewhat by management as they focus on organically growing value for investors, however. While Crescent Point slashed its dividend in response to sharply weaker oil, it still rewards investors by paying a sustainable and regular monthly dividend that yields just over 3%, which further enhances its attractiveness.

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