

Get Ready for Crescent Point Energy Corp. (TSX:CPG) to Soar

Description

Unlike oil, which has firmed considerably since the start of 2018 to rise by 10%, the one-time darling of the energy patch **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has fallen by over 5%. This is despite a number of other upstream oil producers soaring over the same period because of higher oil prices. Crescent Point has failed to keep pace with oil or its peers because of lingering doubts among investors about its ability to unlock value.

Now what?

The key problem for Crescent Point is that it is perceived by the market to be a serial diluter of existing shareholder value because of the driller historically using equity to fund a swathe of acquisitions. When oil prices collapsed, Crescent Point was forced to reign in spending, which included slashing its dividend in order to survive as well as utilizing discounted equity raisings to strengthen its balance sheet further diluting existing investors.

Significantly weaker cash flows caused by oil's prolonged slump also prevented Crescent Point from using acquisitions to boost oil production and reserves as well as limiting its ability to expand organically.

These factors are responsible for its failure to rally, causing it to lag behind the price of oil and many of its North American industry peers.

Nonetheless, this has created an opportunity for investors seeking to cash in on higher oil. Not only does Crescent Point own and operate high quality assets, but management recognises the company's failings and has implemented a transformation program aimed at unlocking value for investors.

As a result, Crescent Point is focusing on strengthening key value drivers, including bolstering its balance sheet, improving capital allocation with a focus on high return projects, putting cost reductions in place and increasing the rate of return on capital employed. This should contribute to expanding Crescent Point's free cash flow and profitability and give its bottom line a solid lift.

Because of the market's negative perception of Crescent Point for the reasons discussed above, it is trading at a steep discount to the value of its oil reserves. The company has net reserves of 893 million barrels, which are 76% weighted to light and medium crude, thereby minimizing the impact on of the deep discount applied to [Canadian heavy oil](#) and weaker natural gas prices on its earnings.

After income tax and the application of a 10% discount rate, those reserves have a net asset value of \$14.7 billion, which is equal to \$25 per share — around two and half times Crescent Point's current market value. That indicates the tremendous upside available for investors as oil prices rise and the quality of Crescent Point's operations improves.

The quality of Crescent Point's assets is underscored by their significant profitability. For the first

quarter 2018, the company reported an industry leading netback of \$32.28 per barrel, which was significantly higher than the majority of its peers, including the \$19.14 a barrel reported by **Baytex Energy Corp.** That netback will only grow because of the combination of higher oil and the company's focus on reducing operational costs.

So what?

When all of these factors are considered in conjunction with Crescent Point's steadily growing production and firmer oil, the company's earnings and stock will soar over the coming months. That makes Crescent Point one of the best ways to play the increasingly [optimistic outlook](#) for crude.

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