Crescent Point Energy Corp. (TSX:CPG) Stock Hits a 15-Year Low: Time to Buy?

Description

Contrarian investors are always searching for troubled stocks that might be nearing a bottom.

Let's take a look at **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) to see if it deserves to be on your buy list right now.

Fallen star

For years, Crescent Point was a favourite pick in the Canadian oil patch, especially among income investors. The company paid a generous monthly distribution of $0.23 per share and many assumed it would be able to ride out the oil rout and maintain the dividend as it had done during the Great Recession.

Unfortunately, the downturn that began in the summer of 2014 lasted longer than expected, and hedging positions that supported the dividend began to run out. As a result, management was forced to reduce the payout to $0.10, and then again to $0.03 in an effort to protect cash flow.

Transition

Crescent Point has lagged its peers amid a recovery in oil prices over the past year, which resulted in a shakeup in the executive ranks this spring. The company's founding CEO and other senior members of the company left, and the board recently gave interim CEO Craig Bryksa the full-time job. Bryksa has been at Crescent Point for 12 years, so he knows the assets very well.

Crescent Point's large debt position is partly responsible for the company's underperformance. At the end of Q2 2018, Crescent Point had net debt of $4 billion. That's a lot for a company with a market capitalization of roughly the same amount.

Crescent Point has sold some non-core assets to shore up the balance sheet and that process is set to continue. The company plans to reduce net debt by $1 billion by the end of 2019.

In addition, the new management team is streamlining the operations in an effort to make the company more efficient and reduce expenses. Part of that process involves a reduction of staff by 17% that will result in annual total expense savings of $50 million.

In the latest announcement, Crescent Point said it expects 2019 funds flow from operations to exceed capital expenditures and dividend payments, with free cash flow being allocated to reduce debt. At the time of writing, the dividend provides a yield of 5%.

Should you buy?

The plan is encouraging and it appears the new management team has identified the top opportunities in the asset portfolio and is willing to monetize non-core holdings in order to shore up the balance sheet.

As always, oil prices will largely determine the success of the turnaround. Crescent Point is basing projections on an average 2019 West Texas Intermediate price of US$65 per barrel, which is below the current price. Cash flow sensitivity is $45 million for every US$1 per barrel change.

At $7 per share, Crescent Point might be worthy of a small contrarian bet, especially if you believe that oil is headed higher in the coming years. For the moment, investors are paid well to wait for a recovery, although the dividend could be at risk if oil prices fall below the US$65 mark through the first half of next year.

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