



Will \$100 Oil Arrive Before the End of 2018?

Description

Crude [has surged](#) in recent days to see the North American benchmark West Texas Intermediate (WTI) having gained a remarkable 23% since the start of 2018 to be trading at over US\$70 a barrel. The international price Brent has made similar gains to be trading at over the psychologically important price of US\$80 per barrel.

This bodes well for Canada's beaten down energy patch, which has been struggling to generate investment.

One stock that has failed to perform despite crude's sustained rally is upstream intermediate oil producer **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which has lost almost 20% for the year to date.

Now what?

Oil is expected by many analysts to move higher in coming weeks because of the reinstatement of sanctions against Iran, the sharp deterioration of Venezuela's oil output and growing bottlenecks in the U.S. shale oil patch.

Sanctions against Iran are expected to shave up to one million barrels or more daily off global oil supplies when they come in full force in early November 2018. These will also prevent Iran from obtaining the investment required to expand its oil industry and grow production to a planned 4.5 million barrels daily in five years.

Teheran's plans to substantially expand production were a key factor that weighed heavily on crude since sanctions were eased in 2015.

Venezuela's production remains in free fall despite claims by President Maduro that the Latin American nation can shake off the troubles being experienced by its petroleum industry and grow output.

According to OPEC data, Venezuela's August 2018 oil production averaged 1.2 million barrels daily which was 3% lower than a month earlier and a massive 35% lower than the daily average for 2017.

There is every indication that it will continue to fall, as a lack of hard currency, sanctions and foreigner energy majors pulling out of the country prevents the Maduro regime from performing critical maintenance, drilling and exploration activities.

Unplanned disruptions in Libya are a wildcard that could act serve as a powerful tailwind for crude. Various factions in the conflict torn nation are vying for control of its oil production, ports and infrastructure as they seek to gain funding to continue their struggle for control of the African nation.

A range of outages that bolstered oil prices in 2018 have already been witnessed, and there is the likelihood of further disruptions over the remainder of 2018 and into 2019 as the civil war continues.

Let's not forget that while U.S. shale production continues to exceed estimates, growth is slowing because of infrastructure constraints. A lack of pipeline takeaway capacity in the Permian is preventing producers from getting their crude to market amid drilling costs that continue to rise as demand for rigs grows, placing further pressures on production.

Whether these factors alone are enough to push crude to US\$100 a barrel is difficult to tell, but [higher oil](#) is here to stay. Even if WTI remains range bound between US\$65 to US\$75 per barrel, it will give the earnings of many upstream oil producers a solid lift.

So what?

The market lost confidence in Crescent Point because of its serial dilution of existing equity holders to fund new acquisitions and doubts over whether it can unlock further value for investors.

The driller has however embarked on a program aimed at improving its operations to grow value for shareholders.

Crucial to this strategy is the appointment of a new CEO and President Craig Bryksa and the adoption of a new clearly defined transition plan with measurable deliverables.

Key aspects of the transition plan are to reduce net debt by over \$1 billion by the end of 2019, reduce expenses by \$50 million, decrease the number of areas in which the company operates and the sale of non-core assets, which will enhance efficiencies.

The successful execution of those deliverables along with firmer oil will boost Crescent Point's earnings, which should significantly bolster its market value. While investors wait for that to occur, they will be rewarded by the driller's regular monthly dividend yielding just over 4%.

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