Ignore the Naysayers: Crescent Point Energy Corp. (TSX:CPG) Is Poised to Soar

Description

Former dividend darling **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) has to be one of the most maligned stocks in Canada's energy patch. Despite the North American benchmark West Texas Intermediate (WTI) rising by over 14% since the start of 2018, Crescent Point's stock has plummeted sharply, falling by almost 38%. The driller has been heavily marked down by the market because of concerns over its ability to grow production and the health of its balance sheet, along with its reputation as a serial diluter of existing shareholders.

Nonetheless, regardless of these issues and overblown fears voiced by some analysts that another dividend cut is on the way, there are signs that Crescent Point will unlock value for investors.

Now what?

In early September 2018, the company announced that it was on embarking on a strategic review and would implement a plan aimed at making it a more efficient operator with a stronger balance sheet. Crescent Point's third-quarter 2018 results, which beat estimates, indicate that considerable progress is being made in this regard. Production of 174,275 barrels daily was slightly ahead of its forecast, although it was 1% lower than the equivalent period in 2017. That marginal decline in output can be blamed on Crescent Point completing a series of non-core asset dispositions, which forms part of its strategy of focusing on driving greater profitability from its core operations.

Importantly, 90% of that production was weighted to oil and natural gas liquids (NGLs), which significantly minimizes the impact of the weak long-term outlook for natural gas on the driller's financial performance.

For the third quarter, Crescent Point realized $80.11 per barrel of crude sold, which was a notable 46% increase over the same period in 2017. This can be credited to higher crude with WTI averaging US$69.50 over the quarter compared to US$48.24 for the third quarter 2017.

However, wider spreads between Canadian oil blends and WTI impacted the difference between Crescent Point's average realized price and WTI, which, at $10.74 per barrel, was almost double the $5.71 per barrel discount reported a year earlier.

The growing profitability of Crescent Point's operations was highlighted by an impressive 62% year-over-year increase in its operating netback before the application of commodity and currency hedges to be $41.14 per barrel sold. After applying the loss on hedging contracts of $7.14 a barrel, the company's netback fell to $34, which was still 19% greater than the third quarter 2017. Aside from higher oil prices, that can be credited to a 10% year-over-year reduction in transportation costs.

Those solid results saw Crescent Point confirm its 2018 guidance of annual average production of 177,000 barrels daily, which represents a modest gain of 0.6% over 2017. Firmer oil and the ongoing focus on driving operational efficiencies as well as reducing costs, however, should see stronger full-year financial results.

Crescent Point also finished the third quarter with a stronger balance sheet and improved liquidity. Net debt totaled $4 billion, which was 3% lower year over year and was a manageable 2.1 times funds flow from operations compared to 2.5 times a year earlier. The driller also finished the third quarter with $1.7 billion of unused credit capacity compared to $1.4 billion at the end of the same quarter in 2017.

This, along with further planned non-core asset divestments and a reduction in 2019 capital expenditures, gives Crescent Point the ability to weather weaker oil, which, according to some prominent analysts, could occur in 2019. It also means that Crescent Point is well positioned to reduce its net debt to a mere 1.3 times operational funds flow over the coming 12 months.

So what?

All of these factors point to the likelihood of yet another dividend cut being extremely low and that profitability as well as earnings should keep growing at a solid clip. When considered in conjunction with an increasing likelihood that oil will remain firm and could rally further over the next year, Crescent Point's stock should soar once it proves to the market that it has successfully completed its transition plan.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/28
Date Created
2018/10/31
Author
mattdsmith