Will Crescent Point Energy Corp. (TSX:CPG) Go Bankrupt in 2019?

Description

It's been a tough ride for long-term investors of **Crescent Point** (TSX:CPG)(NYSE:CPG). Since 2002, investors would have earned roughly a 0% return. That's difficult to swallow for a 17-year investment period.

But along the way, there were plenty of opportunities to profit. From 2002 to 2016, shares rose from a mere $3 to over $44 — a +1,400% return! Since then, however, shares have fallen by more than 90% and are trading back in the $3 range.

Somehow, the company is still paying a $0.03 monthly dividend, which equates to an 8.66% yield. Despite this, many investors are balking at the payout due to the company's heavy debt load, which now stands at 2.5 times the firm's market cap. Trading at just 25% of its book value, the market is clearly concerned that the potential value of Crescent Point's assets will never be realized. If a bankruptcy occurs, investors could lose everything.

Will Crescent Point go under this year, or is this an incredible opportunity to buy?

Don't trust this management team

Producing oil is a difficult business these days. Volatile prices make it tough to accurately develop profitable sites, especially if those areas require high minimum prices to be economically viable. While nearly any well was profitable when prices were over $100 per barrel, $50 oil is an entirely different game.

Canadian oil companies have had it much worse than their U.S. peers. While the country is rich in resources, high-cost developments have pushed many companies to the edge. Many oil sands sites, for example, require $40 or even $50 oil prices to turn a profit.

The potential liability from an environmental crisis adds to the pressure. Some companies have optedto eschew these risky developments for safer but lower-return investments. When oil prices are high,the market punishes these firms. But today, they may be the only ones left standing in a few years.

Tough conditions require savvy management teams, and Crescent Point doesn't have one. They've been able to destroy shareholder value faster than nearly every other competitor by taking on debt and selling non-core assets at fire-sale prices to support a capital-expenditure program that some investors have called reckless.

In April 2018, private equity firm Cation Capital took an activist approach and called for the replacement of the company's management team, stating that they were "compelled to take this action given the significant destruction of shareholder value and the abject failure of the Canadian oil producer's current leadership across all aspects."

They went on to criticize management for excessive executive compensation, despite a floundering share price. In May, the CEO stepped down: "after 15 years as the CEO, it's time for me to move on."

The new CEO quickly instituted budget changes by eliminating nearly 20% of its workforce, which is expected to bring more than $50 million in annual savings. His goal was to reduce the company's debt by $1 billion in 2018, but it may come at the cost of shareholder value.

In June, the company agreed to sell assets in the Williston Basin for $280 million, but it refused to reduce its 2018 capital-spending plan, meaning it's still using these savings to expand the company rather than reduce bankruptcy risk.

Time is ticking

Things aren't getting any easier for Crescent Point. As of last quarter, the company had just $80 million in cash versus a $3.2 billion debt load. In 2019, Crescent Point has $74 million in debt maturities. These maturities rise to $158 million in 2020, $185 million in 2021, and $224 million in 2022.

In order to avoid bankruptcy, the company must continue to sell assets at fire-sale prices, dilute shareholders at historically low share prices, cut production in what otherwise would have been valuable investments, and take on more debt (if the debt markets allow it to). None of these actions are long-term strategies for growing shareholder value. Bankruptcy isn't likely in 2019 given the company has plenty of room left to execute the actions above, but investors are likely to lose anyway.

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