Is 2019 the Year That Crescent Point Energy (TSX:CPG) Will Bounce Back?

Description

The prolonged oil slump that began in late-2014 has been tough on one-time dividend darling **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). The intermediate oil producer has slashed its dividend multiple times since the end of 2014 and recently cut it again by almost 90% to a quarterly payment of $0.01 per share. This is a mere shadow of the monthly $0.23 per share dividend that existed before oil's price collapse began. This has attracted considerable ire from the market, with Crescent Point marked down by 11% since the start of 2019 despite the North American benchmark West Texas Intermediate (WTI) gaining 19% over the same period. While substantial negative sentiment surrounds the driller, including claims by some analysts that it is on the brink of collapse, much of it appears unjustified.

Strategic repositioning is gaining momentum

Historically, Crescent Point earned a poor reputation for diluting existing shareholders by using equity issuances to fund acquisitions and debt to maintain a dividend payment that regularly exceeded net earnings. The driller was built to thrive in an operating environment where oil WTI was trading at over US$90 a barrel, but for the last five years, it has had survive a protracted downturn where sub-US$60 a barrel crude became the new normal.

This spurred Crescent Point to pivot its operations to become cash flow positive and profitable with WTI at US$50 per barrel. There are signs that it is making considerable progress. After installing a new senior management team, Crescent Point is now focused on boosting profitability, reducing costs and strengthening its balance sheet.

As part of its strategic transition, the driller has already reduced controllable operating expenses by around $35 million and is targeting further reductions during 2019, including a 10% decrease in general and administrative costs. This will go a long way to reducing Crescent Point's breakeven price and bolstering profitability, with the company forecasting excess cash flow with WTI at US$50 a barrel. That means with the North American benchmark having recently surged to $55 a barrel and expected to nudge US$60 in coming months that Crescent Point's earnings and cash flow will grow at a healthy clip.

A key element of the driller's strategy is to focus on developing its most productive assets and divesting non-core operations. That has allowed it to reduce 2019 capital expenditures by 30% compared to 2018. Some analysts claim that this is a poor approach which will inhibit its ability to grow oil reserves and production.

Nonetheless, it make sense because Crescent Point's core Williston Basin and Southwest Saskatchewan properties, which will receive 55% of its 2019 budgeted capital expenditure, are responsible for around 79% of the driller's oil output. What some analysts don't appreciate is that the location of Crescent Point's core properties allows it to avoid much of the volatility associated with Canadian crude prices.

A lack of pipeline exit capacity and growing oil production in Western Canada sparked a massive localized supply glut, which caused the price differential for Canadian crude benchmarks to WTI to widen significantly. At one point the price of Canadian light crude known as Edmonton Par hit a record low of around US$20 a barrel despite WTI trading at over US$55 per barrel. The location of Crescent Point's primary operations allows it to avoid most of those transportation bottlenecks, meaning that it isn't as heavily impacted by the discounts applied to Canadian crude blends as other domestic oil producers.

The improved profitability of Crescent Point's operations is underscored by the driller estimating that it will generate a 2019 operating netback of $25.50 per barrel with WTI trading at only US$50 a barrel.

To strengthen its balance sheet Crescent Point has earmarked the sale of non-core properties and the monetization of its infrastructure assets. This, along with growing cash flow, will allow the driller to reduce debt from $4 billion by around $1 billion to a more manageable 2 times annual operating cash flow by the end of the year.

Crescent Point has also embarked on a share buyback, where it is seeking to acquire up to 7% of its outstanding float. Management believes that the market is not recognizing the driller's true value and a share buyback will support a higher share price.

Is it time to buy Crescent Point?

Crescent Point has a long history as a serial diluter of existing shareholders by issuing new stock to fund questionable acquisitions. The focus on organic growth from its core properties combined with reducing costs and debt while boosting profitability is a marked change in strategy and bodes well for the driller. The success of its strategic repositioning and the improved outlook for crude makes now the time to buy Crescent Point.

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