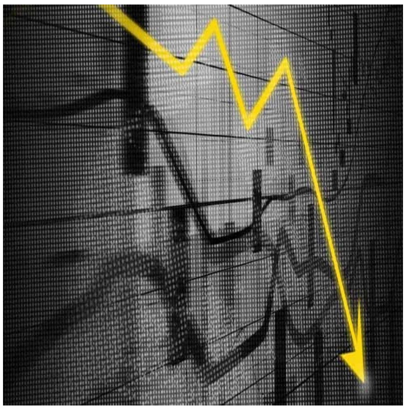

Is Crescent Point Energy Corp. (TSX:CPG) Stock a Buy After Losing 80% of Its Value?

Description

One really good way to make money is to buy cyclical stocks that are trading at cyclical lows. I am a strong proponent of this strategy, and although it takes nerves of steel, it is a lucrative strategy if done right.

The energy sector is at cyclical lows, with sentiment that continues to be very negative and real problems lingering, so for investors who are prepared to take the contrarian position and put some money into the sector, the long-term gains are potentially huge.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG), once an investor darling that could do no wrong, has fallen hard since its heyday (down 80%) and is one oil and gas stock that many investors are consistently interested in.

That's understandable, as the company has an enviable resource base, with exposure to large resource plays in lucrative areas, such as the Bakken that have low-risk development opportunities with strong economics.

But this is where the good news ends.

Although a shift in strategy has been implemented to focus on sustainability, years of focusing on production growth rather than shareholder returns has more than caught up with the company.

Over the last 10 years, the company has a history of issuing equity in order to make acquisitions, effectively diluting shareholders in the process.

Currently production is flat versus last year and is expected to remain pretty much flat in the next couple of years, as the company's growth via acquisition story is a thing of the past.

Other worrisome points, and reasons to stay away from the stock are its low 1% insider ownership and its payout ratio, at 150% of earnings.

So although the latest quarter was better than expected, Crescent Point has too much downside and remains one to avoid.

For a different, more secure and reliable way to play this counter-cyclical trade, I give you **Freehold Royalties Ltd**. (TSX:FRU).

With 99% of its operating income coming from royalties, Freehold mitigates many of the risks that are inherent in this trade.

Freehold stock currently has a dividend yield of 7.29%, and a dividend that is safe and well-covered. You see, Freehold's financials remain exceptionally strong, making this stock, that has declined by approximately 50% in the last year or so, a great buying opportunity.

Cash flows are strong, with operating cash flow up 27% versus last year in the third quarter of 2018 and 9% versus last quarter.

Freehold's payout ratio is enviable, coming in line with the company's targeted 60% to 80% range. The company's balance sheet is also enviable, with a net debt to cash flow ratio of 0.6 times.

In summary, with a highly diversified list of quality assets in a royalty model, Freehold is a less risky way to bet on the oil and gas market and to benefit from buying in at cyclical lows.

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