Crescent Point Energy Corp. (TSX:CPG) Stock: Should You Buy the Bounce?

Description

An uptick in oil prices in the past few days is giving some of Canada's troubled oil producers a nice lift.

Let's take a look at **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) to see if it deserves to be on your contrarian buy list right now.

Tough times

Crescent Point is up 15% over the past few trading days. That's a pretty impressive gain for anyone who bought the stock before the close on Feb. 11, but a quick look at the long-term chart shows the uptick is little consolation for those who have owned the stock for some time.

For years, Crescent Point enjoyed the status of being a go-to name for income investors. The company paid a generous dividend and had consistently maintained the payout through the ups and downs of the oil market.

That all changed, however, when the latest oil rout began in 2014. At the time, the company traded for $45 per share and paid out a monthly distribution of $0.23. The hedging positions began to run out in 2015, and by the summer of that year management had to cut the distribution $0.10 to protect cash flow. Another reduction to $0.03 occurred in 2016, and Crescent Point just trimmed the payout again. The new dividend is just a penny per month.

At the time of writing, the stock trades at $3.75 per share, which isn't too far off the low of $3.24 it hit earlier in the week. To put things into perspective, Crescent Point last traded below $4 in 2002.

Debt watch

Betting on highly leveraged oil stock has been a painful experience in recent years, and Crescent Point has certainly taken a beating due to its debt situation. The company finished Q3 2018 with net debt of $4 billion. That’s a lot for a company with a current market capitalization of $2 billion.

Production

Crescent Point can’t issue new stock to pay down the debt or boost the capital program, so it needs higher prices for its output to generate enough cash to shore up the balance sheet and boost drilling. For the first nine months of 2018, production was essentially flat compared to the same period the previous year.

Oil prices have recovered from the lows of late 2018, but are likely still too low to make a big impact.

Should you buy?

A strong surge in oil prices could drive this stock significantly higher, but the pops in the past four years have all turned out to be head fakes.

On the positive side, Crescent Point owns attractive light-oil assets, and it wouldn’t be a surprise to see the company get bought, but betting on a takeover premium is risky right now. At this point, I would probably search for other contrarian picks in the market.

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aswalker