Here’s How Crescent Point Energy Corp (TSX:CPG) Will Become a Cash Flow Machine

Description

Lately, **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) hasn’t been known as a cash flow machine. In fact, it’s much better known as a destroyer of shareholder wealth.

Over the past five years, shares are down more than 90%. However, there was a time when investors were handsomely rewarded for years at a time. From 2002 to 2014, for example, Crescent Point stock steadily moved from $3.15 per share to nearly $50 per share.

Looking at the pieces management has put into place over the past 24 months, it’s possible that another multi-year run could be just around the corner. Here’s why you should believe the company has turned a corner.

2018 was a year of transition

Last year, Crescent Point’s management team had the goal of becoming “more focused and efficient with a stronger balance sheet.” Did it succeed?

The first course of action was for the company to sell off non-core assets that either required additional funding to develop or simply weren’t cost efficient with the rest of the company’s assets. In total, the company disposed of projects producing 7,000 barrels per day for around $355 million.

Creating a cleaner balance sheet was a priority if you look at the company’s upcoming maturities. While 2019 will only see $74 million in debt due, the three following years will see a total of $567 million that needs to be repaid. Crescent Point still has $1.6 billion in liquidity available to it for an average interest rate of just 4.6%, but there’s no doubt that investors are ready for the company to delever.

Last year’s asset disposals generated enough cash to entirely pay off the next three years of debt maturities. Now, the company can return to generating healthy profits from its existing sites.

Today, the company has reduced its focus to just three high-quality projects located in Saskatchewan. Crescent Point owns some early-stage projects in Utah and Alberta, which have a combined 650,000 net acres of land, but the Saskatchewan plays will remain the focus.

What will 2019 hold for Crescent Point?

Based on current strip prices, including hedges, Crescent Point should generate around $400 million in free cash flow this year. Much of that will be used to reduce debt, which, as we’ve noted earlier, actually isn’t too much of a concern. Notably, management has also targeted share repurchases.

Currently, shares trade at just 24% of book value. While much of the assets are impaired due to structurally lower oil prices, even a 50% haircut off book value would mean shares have 100% theoretical upside, according to the net value of its assets. Management has noticed this disparity, highlighting share repurchases as a great investment.

The company currently has a buyback program in place for up to 7% of its outstanding shares. On March 7, the company revealed that it had repurchased 1.3 million shares at an average cost of $3.89 per share, a significant discount to the company’s stated net asset value, which, depending on the assumptions, is somewhere between $5.37 and $13.38 per share.

If free cash flow does materialize — a good bet at current oil prices — expect these buybacks to continue. Management also intends to sell additional assets to raise capital. While depressed prices may reduce the amount they can raise through asset sales, reinvesting the proceeds into deeply discounted shares is likely a smart move.

If oil prices remain consistent or rise, Crescent Point stock will likely win.

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