Revealed: This Oil Company Might Be Canada's Cheapest Stock

Description

I'm constantly amazed at how investor attitude about the energy market changed after the 2014 crash.

The sector could do no wrong before 2014. Both speculators and more conservative investors held energy stocks, although in different forms. The speculators crowded into the tiny names, convinced they'd find the next tenbagger. Conventional investors, meanwhile, held the more mature oil operators, most of which paid generous dividends. Getting a 5-8% yield on an oil stock was not uncommon during the glory days of the sector.

Much has changed in the last five years. When the price of oil collapsed, so did these producers' underlying cash flow. This lead almost immediately to big dividend cuts, with many eventually running into balance sheet troubles. Investors left the sector in droves, moving their capital to other high-yield names. And even though crude has recovered significantly off its lows, there's just no interest in the sector today.

This should be music to a value investor's ears. There are dozens of incredibly cheap oil stocks out there — names that have massive upside should the underlying commodity recover. Let's take a look at one of the cheapest of all, **Crescent Point Energy** (TSX:CPG)(NYSE:CPG).

Why Crescent Point?

Crescent Point is cheap on two major metrics. It owns assets that are being mispriced by the market based on both the value of these assets and potential cash flow generation ability.

Let's start with valuing Crescent Point's reserves. According to a recent investor presentation, at the end of 2018 the company's 2P reserves alone were worth more than $13 per share, net of debt and other liabilities. Shares trade at under $4 as I write this. That gives us more than 200% upside potential.

Management valued these reserves at US$55 per barrel. The current price of crude oil is just under US$59 per barrel. This pushes the value of reserves into the $14 per share range today.

Or, if you like a more traditional value calculation, the stock trades at just one-third of book value.

Crescent Point's reserves are world-class assets, too. The company has focused on loading up on acreage that offers two main advantages. First, it concentrates on light sweet crude, which gets the best prices when it comes time to sell. And management makes sure to buy assets that are cheap to take out of the ground. Crescent Point often posts some of the sector's highest netbacks because of these two underlying principles. If the price of crude improves even moderately, Crescent Point could post adjusted netbacks of $30/barrel in 2019.

All of this translates into a company that trades at a low price-to-cash flow ratio, with the potential for this ratio to get even lower if crude recovers. Assuming crude stays in the US$60 range per barrel for the rest of 2019, I estimate the company could generate excess of $2 billion in cash flow. After capital expenditures of $1.2-1.3 billion, that leaves us with free cash flow in the range of $700-800 million.

Crescent Point's current market cap is $2.2 billion, putting shares at approximately three times 2019's potential free cash flow. You won't find many stocks cheaper than that.

Yes, there are risks here. There's no guarantee crude oil will cooperate, of course. Crescent Point's balance sheet is still stretched, although the company plans to use much of its excess free cash flow to pay down debt. And management is even taking steps to help the stock price, announcing a plan to buy back up to 38.4 million undervalued shares.

The bottom line

If you believe oil has turned a corner and will remain at US$60 per barrel for the foreseeable future, the time to buy cheap oil shares like Crescent Point is now.

Remember, this sub-$4 stock traded higher than $9 per share less than a year ago and flirted with $40 when the sector was really booming. The upside potential here is obvious.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/23
Date Created
2019/03/20
Author
nelsonpsmith