Why Did Crescent Point Energy Corp (TSX:CPG) Stock Pop 18%?

Description

On March 19, **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) stock traded at $3.99 per share. Two days later, shares had jumped by 18% to $4.71 apiece.

Down more than 50% over the past 12 months, such a strong upward move is rare for the company. Is the recent surge a sign of things to come?

A burden partially lifted

The resurgence in share price is a surprise given that I explored the possibility that the company would go bankrupt in 2019. While I concluded that insolvency "isn't likely" this year, I wasn't bullish on Crescent Point's long-term prospects.

Has anything changed in recent days?

On March 19, the Alberta government eased its mandatory output restrictions. If you recall, the government needed to force production cuts onto regional operators after local companies began generating 10-15% more oil than nearby pipelines could handle.

That move hurt stocks like Crescent Point hard, especially given that they were already battling shrinking cash flows.

After the recent changes, regional oil production will be boosted by 25,000 barrels per day starting in May. An additional 25,000 of daily production will be added in June.

Don't rush in just yet

Notably, the increase wasn't due to better transportation infrastructure, but rather warmer weather. Less diluent is needed to move output through pipelines during the spring and summer, meaning that the increased capacity is simply a seasonal effect.

It could take years to build the required infrastructure to allow the Alberta province to produce at full output. New crude-by-rail capacity should help, along with warmer weather, but systemic issues are far from solved.

Previously, the government said that production curtailments should wind down by the end of the year, positioning 2020 as a return to normalcy. The only way that goal will be met is through massive amounts of new crude-by-rail capacity, a much more expensive option versus pipelines. So sure, production levels might rise, but so will costs.

Small increases in industry-wide production won't change the company's debt maturity cliff either.

This year alone the company needs to repay or refinance $74 million in loans. Next year that figure will rise to $158 million, and its future looks even worse. Crescent Point has $185 million of debt maturities in 2021 and $224 million in 2022.

Should you take a chance?

With $80 million in cash against $3.2 billion in debt, Crescent Point is still in dire straits. Easing production cuts should help, but ultimately, it will be just a drop in the bucket.

To stage a full recovery, the company will likely need to sell assets at fire sale prices or massively dilute shareholders by selling huge chunks of equity at market lows. Neither of those solutions seem like quality ways to build wealth for shareholders.

The company will continue to survive this year, but buying stock now still presents heavy risks.

The recent bump is deserved, but it doesn't change the company's long-term challenges. I'm still sticking on the sidelines.

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Date
2025/06/30
Date Created
2019/03/21
Author

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