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

Description

Crescent Point Energy (TSX:CPG)(NYSE:CPG) is up 20% in recent days and has soared 50% in the past two months. This has investors wondering if the beleaguered oil producer could finally be in recovery mode.

Let's take a look at the current situation to see if Crescent Point deserves to be on your contrarian buy list today.

Oil recovery

Oil prices in Canada and the United States have improved significantly in 2019. Alberta's decision to put a cap on production served its purpose in reducing the differential between Western Canadian Select (WCS) and West Texas Intermediate (WTI) prices.

At one point, WCS was down to about US$11 per barrel. Today it trades at close to US$56 at writing. WTI has rebounded from US$42 in late December to US$64 per barrel.

OPEC supply controls combined with disruptions in Libya are largely responsible for the extension of the recovery. Venezuela's political and economic turmoil is also a factor. The geopolitical unrest is expected to continue for some time, and Saudi Arabia appears keen to see higher prices despite ongoing pressure from U.S. president Donald Trump to increase production and keep prices low.

On the demand side, slowing Chinese growth could be a headwind to significantly higher prices, although a resolution to the ongoing trade dispute between China and the United States would likely lead to an oil rally.

For the moment, it appears that oil is headed higher, and some pundits expect WTI to top US$70 in 2019.

Crescent Point

Crescent Point traded for $45 per share and paid a monthly dividend of $0.23 back in 2014 when WTI oil was US$100 per barrel. The stock currently trades at $5.00 per share and pays an annualized distribution of just $0.04.

Investors who picked up the stock in early February are happy campers, but long-term holders of Crescent Point might not be overly impressed with the recent rally.

The company continues to struggle with high debt levels, although rising oil prices will help drive higher cash flow and that should give management some extra funds to start shoring up the balance sheet. In the Q4 2018 report, the company said it anticipates having $400 in excess cash flow to reduce debt in 2019.

The company finished 2018 with net debt of $4 billion, so there is a long way to go to get the balance sheet in shape. At the current stock price, the company has a market capitalization of just $2.75 billion.

Should you buy?

An extended rally in oil prices can make a large cash flow difference and if it looks like Crescent Point can cut the debt load by much more than anticipated, investors could move back into the stock in a big way. In addition, there is a chance Crescent Point could become a takeover target, given the attractive light oil resource base.

Previous bounces in the stock have proven to be head fakes, so I wouldn’t back up the truck, but investors who think the oil rally has legs might want to take a small contrarian position. If oil surges and money flows back into the energy sector, Crescent Point could easily double off the current level.

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