



Is it Time to Buy Crescent Point Energy (TSX:CPG) After Gaining 28% Since the Start of 2019?

Description

Oil latest rally has seen the North American benchmark West Texas Intermediate (WTI) gain a whopping 40% for the year to date with further upside ahead. This has been a powerful tailwind for beaten-down Canadian energy stocks with one-time dividend-paying investor darling **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) rising by 28% over that period.

Such strong gains have triggered considerable speculation that Crescent Point is close to running out of steam. There were even some pundits [claiming](#) that the company was a risky proposition and may not see out the year. While there are further headwinds ahead for Crescent Point, the risk/reward equation is certainly in the [favour of investors](#) and the driller poised to soar as the outlook for crude improves.

Turnaround is gaining momentum

In 2018, Crescent Point embarked on a strategic turnaround aimed at delivering value for investors through a combination of controlling costs, boosting the return on capital deployed, strengthening its balance sheet, and expanding production. By the end of 2018, Crescent Point had achieved some important goals. The driller boosted its proven and probable oil reserves by 10% to 988 million barrels of oil equivalent as well as having replaced an impressive 142% of its 2018 production.

While production growth remained relatively flat rising by just over 1% year over year to 178,166 barrels daily, Crescent Point reported a massive \$2.6 billion loss compared to a \$124 million loss a year earlier. That certainly supported the thesis voiced by some pundits that the driller was unable to deliver value for investors, despite embarking on an ambitious turnaround program.

Nonetheless, when digging deeper, there are clear signs that the economics of Crescent Point's operations are improving. The quality of the driller's assets is underscored by its strong recycle ratios, which are a key measure of profitability for upstream oil producers.

Essentially, the upstream explorers and producer's recycle ratio highlights just how economic it is for it to bolster its oil reserves. Crescent Point reported a 2018 recycle ratio of 1.4 times for its proven and probable reserves when including finding and development costs. Those reserves, using an assumed WTI price of US\$55 a barrel, have a before tax net asset value of \$13.38 per share, which is 2.5 times greater than its current market value, underscoring the considerable potential upside available.

The key driver of the massive 2018 net loss reported by Crescent Point was the driller's decision to book impairment charges totalling \$3.5 billion on the value of its oil assets. That has cleared the decks for 2019, which, in an environment where oil has rallied sharply, should see a return to profitability, particularly when it is considered that management is focused on controlling costs and improving the return on capital invested.

As part of the turnaround, Crescent Point has also focused on strengthening its balance sheet. The driller is targeting net debt of less than two times distributable cash flow. That will give Crescent Point considerable financial flexibility, improving its ability to weather another downturn in the price of crude, which is likely now that OPEC is considering boosting production. This is enhanced by the company's significant liquidity composed of \$1.6 billion in cash and unutilized credit.

While Crescent Point's dividend cut announced in January 2019 was a bitter pill for investors, it made sense because it allowed the driller to protect cash flow and its balance sheet. This has also left it positioned to make share buybacks, which will prop up the company's value and provide an important outcome for long-term investors because of Crescent Point's long history as a serial diluter of existing shareholders when making acquisitions.

Why buy Crescent Point?

The driller has been harshly handled by the market, and for good reason when its history of diluting shareholders, making acquisitions of marginal quality, and overloading its balance sheet is considered. Crescent Point's quality assets, ongoing improvements to its operations, and push to strengthen its balance sheet make it a solid play on higher oil. The fact that it has failed to keep pace with crude since the start of 2019 makes now the time to invest.

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Date

2025/08/24

Date Created

2019/04/29

Author

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