1 Deeply Discounted Oil Stock to Buy Today

Description

Former dividend darling intermediate oil producer **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) has been roughly handled by the market since the price of oil collapsed in late 2014. The driller has a long history of diluting existing shareholders by issuing stock to fund acquisitions of questionable quality and, due to its long spree of acquisitions, had a bloated balance sheet when the oil slump began.

Strategic turnaround underway

There are many claims by market pundits that Crescent Point's best days are behind it and that it won't be able to pivot its operations to operate profitably in an operating environment where oil is trading for US$60 a barrel or less. To address the concerns leveled by critics, ensure the driller's survival, and deliver value for existing shareholders, Crescent Point embarked on an ambitious turnaround program in 2018.

There are signs in the driller's first-quarter 2019 results that the program is gaining traction and the outlook for Crescent Point is improving. Adjusted funds from operations (AFFO) surged by 20% year over year to $514 million and net income rose to a $1.9 million profit compared to a $91 million loss a year earlier. This notable improvement occurred, despite Crescent Point's average realized price per barrel of crude sold of $56.35 being 3% lower than for the equivalent period in 2018 and production declining by 1%.

Despite weaker oil with the North American benchmark West Texas Intermediate (WTI) averaging US$54.90 per barrel or 13% lower than a year earlier, Crescent Point's operating netback before hedging only declined by just under 2% to $33.95 per barrel. This solid netback, which is a key measure of operational profitability and one of the highest in the energy patch, was responsible for Crescent Point's improved AFFO and bottom line.

Crescent Point's hedging program also helps to mitigate the impact of weaker crude on its financial performance. For the first quarter 2019, the driller's hedges added an additional $0.73 per barrel to its netback, causing it to increase to $34.68 per barrel.

Crescent Point has also reduced debt, ending the first quarter with long-term debt of $4.1 billion, which was 6% lower year over year and is a manageable 2.3 times AFFO. Debt should continue to fall as Crescent Point completes further asset sales and uses the proceeds to reduce debt. The company's focus on boosting profitability and free cash flow will also increase the amount of cash available to be directed toward making additional debt repayments.

This all points to Crescent Point's improving ability to unlock value for investors, even if crude remains weak because of fears of weaker demand caused by the ongoing U.S. China trade dispute.

The driller is also focused on reducing the impact of the price differentials between Canadian natural gas as well as oil prices and the North American benchmarks. Crescent Point is doing this by improving market access, particularly in the U.S., to avoid the transportation bottlenecks and lack of Canadian pipeline exit capacity, which are responsible for the discounts applied to Canadian oil and gas.

Trading at a deep discount

Crescent Point's management have initiated a share buyback where the company will target buying up to 7% of its public flat because it believes that its stock is heavily undervalued. This becomes apparent when considering that Crescent Point's proven and probable reserves have a net asset value of $13.38 per share at an assumed WTI price of US$55 per barrel, which is almost three times greater than its market value.

That highlights the considerable potential upside available, if Crescent Point can consistently demonstrate that it has boosted profitability and strengthened its balance sheet. Higher oil will also give Crescent Point's stock a healthy lift. Once the commotion surrounding Trump's trade policy and the potential for a trade war between the U.S. and China dies down, there is every likelihood that crude will firm.

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
2025/08/28
Date Created
2019/05/30
Author
mattdsmith