Why Crescent Point Energy (TSX:CPG) Could Surge to $10 This Year

Description

Canadian energy stocks have been underperformers in recent years, falling into a far deeper hole than many of us imagined to the point where even top operators with high-quality assets are trading at a fraction of their value by any measure.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is one such company whose stock has been decimated, currently trading at a fraction of its price five years ago. However, beneath the rubble we can see two rays of hope.

The first lies is in Crescent Point's large exposure to lucrative, quality resource plays that provide solid economics. The Bakken shale resource play in Saskatchewan is one of the plays where Crescent Point is very active. It is a light oil, high-return play that provides long-term growth potential with many opportunities to enhance production through waterflood development, a low-risk secondary recovery method that enhances resource recovery with moderate decline rates.

The second is in the operational success that Crescent Point has had with its low-risk enhanced recovery techniques, which mean that we can expect growing production with lower capital requirements and surer outcomes, with lower decline rates and longer-term production as a result. We can expect Crescent Point to grow production while spending less than cash flow generated.

With these two rays of hope in mind, let's look at the company's recent results. First-quarter 2019 cash flow came in above expectations once again in what is becoming a very pleasant habit for the company. Cost improvements in many areas increased margins and efficiencies, with cash flow per share coming in at $0.93, which was 20% higher than the same period last year.

Free cash flow came in at $129 million. Most of this cash flow was used to repay debt, which continues to reduce the risk profile of Crescent Point stock. Net debt now stands at $3.9 billion for a debt to funds flow ratio of 2.1 times.

Crescent Point is in survival mode. The stock is dirt cheap, trading at price-to-cash flow multiples of just over one time, a level I can't remember ever seeing. The company is free cash flow positive, and management intends to use this cash flow mostly to pay down debt, but also to buy back shares; this sitting duck approach is perfect for the times.

Until pipelines can get built, until the oil can get moving again and until the federal government steps in to save Canada's all-important energy industry. I believe this will happen.

When this does start to happen (and we may get a glimpse of this on June 19 with the potential approval of the Trans Mountain expansion), Crescent Point will most than likely surge much higher.

Canada's resource plays are top notch, and Crescent Point has exposure to more than one of the country's top notch resource plays, the Bakken and the Duvernay plays.

Forecasting the direction of oil prices has been a difficult task, to say the least. With high levels of volatility and many moving parts and political moves that have worked against Canada's energy industry, oil prices have been a roller coaster ride gone astray.

If we can stomach the unpredictability of oil prices and if we can believe that the energy sector's woes will be addressed and rectified for the financial and economic health of the country, we can feel confident buying Crescent Point Energy stock and holding it until it hits $10. All we need is oil prices north of $60 and successful operational performance to enhance oil recovery. A tall order, yes, but very possible.

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