



## Value Investors: Is This Fallen Oil Company a Buy?

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has been a serial issuer of shares for the last decade. For years, it used its shares as currency to buy more and more properties for its expanding business.

At the same time, the company used cheap debt to buy even more land. For a long time, this strategy worked, with the share price being supported by investors searching for income as its generous dividend pumped income into their coffers.

Then, all of a sudden, the high-growth, high-leverage strategy ceased to work. Plummeting oil prices drove shares lower and investors continued to leave the company in droves and the dividend was decimated.

Value investing is about [looking for deals](#), undervalued assets that are worth far more than their current share price. I believe that Crescent Point might be at the point where the bad news is baked in and investors have been driven so far from it that it might actually be a great buy sitting at a point of significant value.

This is a significant about-face for me, as I have not been the biggest fan of the company in recent years. But now there are a number of reasons for looking at Crescent Point as a potential value play.

### Share buybacks

This is the most [notable change](#) in the company's strategy. Share issuance has been the number one thorn in investors' sides for the past several years.

When a company issues more shares, it dilutes the earnings attributable to each shareholder. It also makes the dividend more difficult to pay since it must pay the same amount to each new share issued.

In January, Crescent Point received approval to repurchase up to 7% of its outstanding shares. Considering the shares are sitting pretty much at an all-time low, this is probably the best use of its cash flow.

Repurchasing shares will increase the value of each remaining share, undoing some of the earlier damage done by share issuance.

Considering shares are trading at about a third of their book value, this move is also a great business decision.

If the shares were to rise in value after purchasing them at such a low level, the company would in effect have made a lot of money simply by purchasing the shares and reducing the overall share count.

## **Management overhaul**

After almost two decades of leadership, Crescent Point's CEO stepped down last September. The serial share issuance took place under his leadership, so a new CEO in the driver's seat might lead to some much-needed policy changes that could take Crescent point to the next level.

After taking the top position, the new CEO made key decisions to reduce Crescent Point's workforce by 17 percent, sell infrastructure assets and reduce debt by more than \$1 billion by the end of 2019.

## **There is value in the entire oil sector**

This one oil company is not the only point of value. The entire Canadian oil sector has been decimated due to external commodity price shocks as well as anti-oil policies enacted domestically.

We are at essentially an all-time low level of oil and gas investment with very little foreign interest in our companies. If investment were to return, these companies could see their share prices appreciate substantially.

## **Once bitten, twice shy**

I have to admit that I do approach entering a position in Crescent Point with a certain amount of trepidation. While I did get out before the stock fell significantly, I was on the receiving end of some losses.

I followed the company as it continued to fall and watched with dismay as it issued more shares at lower prices. I saw it slash its dividend to the point it now barely exists, reducing my confidence in the name further.

Nevertheless, the stock is trading at a point of significant value, and the company's swing to purchasing its own shares indicates that Crescent Point's current management feels the same.

I don't know whether it will regain its former glory, but its remaining properties are excellent and its production is coming around. Buying Crescent Point is a leveraged way to participate in an oil sector recovery. It is not without its risks, but the rewards may be excellent.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. 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. Dividend Stocks
2. Energy Stocks
3. Investing

## Date

2025/08/26

## Date Created

2019/08/14

## Author

krisknutson

default watermark

default watermark