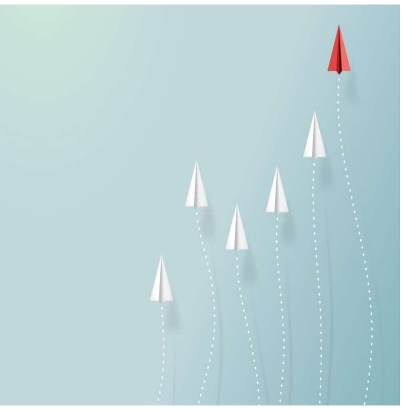

Why Crescent Point Energy (TSX:CPG) Stock Rose 34.8% in September

Description

September was a good month for energy stocks in general, with the **S&P/TSX Energy Index** rising 8.6%, as investors were becoming keenly aware of the value that exists in this sector.

As an energy stock with a stellar resource base, a rapidly improving debt profile and free cash flow positive, **Crescent Point Energy Corp**. (TSX:CPG)(NYSE:CPG) stock was bound to be one of the better performers. We've seen this in the stock's 34.8% rise in September.

Here are the main reasons why Crescent Point stock performed so well:

Massively undervalued stock

Crescent Point Energy stock is one of the energy stocks that stands out as being undervalued, as is evidenced in the stock's depressed price to cash flow multiple of 1.2 times. At these record low levels, it's no surprise that investors have been bidding the stock price up.

I understand the negative sentiment surrounding this sector, but with many energy stocks, including Crescent Point, trading well below net asset value and at record low multiples, it appears that value investors are probably waiting to pounce.

This happened to some degree in September. Maintaining the gains is not guaranteed, but we can at least see that ridiculously low valuations will be a catalyst sooner or later.

Asset sales and debt reduction

On September 3, Crescent Point announced the sale of some non-core assets. The sale metrics were favourable at 4.7 times cash flow, which is much higher than where the stock is trading, and a reflection of the fact that the stock's valuation is not recognizing the actual market values of the company's assets. So far in 2019, the company made $975 million in dispositions.

This is consistent with the company's stated strategy, and the stock price rallied in response. The proceeds from the sale will be allocated to debt reduction and share repurchases. Crescent Point's net debt will decline to $2.6 billion from $3.4 billion prior to the deal and from $4.4 billion in 2018. This will accordingly reduce interest expense for the company and increase its liquidity.

Production will decline as a result of the sales, but the remaining production is lower cost. Thus, this streamlining of the company's operations will uplift its netback (revenue per barrel less costs per barrel). Finally, the significantly lower interest costs will improve the bottom line.

Creating shareholder value through share buybacks

The proceeds from asset sales are also being applied to Crescent Point's share buyback program. The company announced that because of this latest disposition, its share buyback program will be increased by an incremental $100 million.

At this time, with record low valuation levels, buying back shares is certainly a good option for Crescent Point, which will in turn drive shareholder value.

Foolish bottom line

Crescent Point has big 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's a light oil, high-return play that provides long-term growth potential with many opportunities to enhance production through water flood development.

Crescent Point Energy stock's strong performance in September is a reflection of the stock's record low valuation, along with the company's success in its efforts to drive value through asset sales, debt reduction, and its share buyback program.

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