Is Crescent Point Energy (TSX:CPG) Stock a Contrarian Buy?

Description

Contrarian investors are searching for troubled and out-of-favour stocks that might offer a shot at big profits on a turnaround in company fortunes or an improvement in market sentiment.

The oil sector is full of stocks that used to be top picks among investors, but now trade at just fractions of their former prices.

Let's take a look a **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) to see if one deserves to be on your buy list.

Rough ride

Crescent Point spent years as a top pick among income investors, with a generous dividend that appeared to be safe, even amid difficult market conditions. The board held the distribution steady during the turmoil of the Great Recession and maintained the dividend longer than most of its peers when the crash hit in 2014.

Unfortunately, the oil rout lasted longer than most analysts predicted and Crescent Point's hedge positions ran out, forcing the company to slash the distribution from $0.23 per share to $0.10 in 2015, and then to $0.03, and finally to the current level of just a penny.

During that time the share price fell from $45 per share at the peak to below $3.50 earlier this year. The stock has recovered some ground on recent asset sales, which has investors wondering if Crescent Point is ready for a recovery.

The company just closed the sale of its Uinta Basin asset and a basket of non-core conventional oil assets in southeast Saskatchewan for roughly $900 million. Crescent Point is using the proceeds to shore up the balance sheet, with net debt at the end of 2019 expected to be $2.75 billion.

That compares with net debt of about $4.4 billion before the exit of the previous CEO and the implementation of a new senior management team last year. Crescent Point has sold $1.3 billion in assets in the past 12 months.

Management is eyeing additional assets sales to further improve the company's financial position. In its glory days, Crescent Point was one of the energy sector's most aggressive buyers of assets as it ramped up resources and production.

Oil outlook

Oil prices remain under pressure. West Texas Intermediate oil is trading at US$53 per barrel, compared to US$66 at this time last year, but well above the US$42 low we saw last December.

Oil bulls point to supply risks in the Middle East as a potential catalyst. The attacks on Saudi Arabia's oil facilities in September briefly sent oil soaring 20%. The OPEC leader quickly restored production and supplies, but the incident has increased tensions in the region.

The U.S. has accused Iran of being responsible for the attack, and any direct military escalation between Saudi Arabia and Iran could send oil prices significantly higher.

Despite the supply risks, oil bears remain in control. The ongoing trade dispute between the United States and China is threatening to send the global economy into a recession, which would likely have a negative impact on oil demand and put further pressure on oil prices.

In Canada, the pipeline bottlenecks remain an issue for producers who are unable to move oil to international markets where they could get global pricing for their product. Western Canadian Select, which trades at a discount to WTI, improved after Alberta put restrictions on production, but remain under pressure. WCS currently trades at US$38 per barrel.

Should you Buy Crescent Point?

The stock trades at $5.25 per share at writing. Investors who had the courage to step in at $3.25 earlier this year are sitting on some nice gains, but the majority of Crescent Point shareholders are probably under water.

The recent balance sheet improvements should limit the downside risk. As a result, investors with a bullish view on the oil market might want to start nibbling on the stock.

I wouldn't back up the truck, but a small contrarian position could be of interest right now.

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