Why Did Crescent Point (TSX:CPG) Lose 14% Over the Past Month?

Description

Canadian energy stocks continue to be weighed down by the poor sentiment surrounding crude, which has seen the North American benchmark West Texas Intermediate (WTI) lose 28% over the last year.

Growing fears of a global recession and reduced demand for oil along with growing oil inventories caused crude to weaken, which saw the market heavily mark down many energy stocks over the last month, including **Crescent Point** (TSX:CPG)(NYSE:CPG), which lost 14%. This has sparked considerable concern among investors that energy prices and oil stocks won't recover as predicted.

Poor outlook

While a sharp decline in oil demand growth and a weaker global economic outlook are certainly part of the reason for Crescent Point's latest weakness, there are other factors impacting its outlook.

The driller has a long history of disappointing investors, gaining a reputation as a serial diluter of shareholders and regularly using equity to fund questionable acquisitions. When oil slumped, Crescent Point was forced to cut its dividend, ultimately reducing it to a token $0.01 per share, giving the driller a yield of just under 1%.

In response to growing market concerns over Crescent Point's outlook and weak share price, management implemented a strategy in 2018 to turn the company around and unlock value for shareholders.

The key elements of this plan are to reduce Crescent Point's operating areas, cut costs, implement operational efficiencies and strengthen its balance sheet.

Despite some market concerns that the plan was not gaining any traction, there are signs that it is progressing and delivering results. By the end of the second quarter 2019, Crescent Point's debt had fallen to $3.5 billion, which was 20% lower than the equivalent period in 2018. Crescent Point anticipates that after its latest asset sales, its long-term debt will fall to a more manageable $2.75billion.

The company recently closed that sale, seeing it sell its Unita Basin and Southeast Saskatchewan assets for $912 million. While the assets sales and subsequent stronger balance sheet are overall a positive development for Crescent Point, it does mean that oil production will continue to decline.

Crescent Point's falling oil output along with weaker oil has been weighing on its financial performance, hence the sharp decline in its market value. For the second quarter 2019, total oil output fell by 5% year over year along with weaker crude impacted earnings.

The recently completed asset dispositions will see Crescent Point's production decline further, which doesn't bode well for cash flow or earnings amid an operating environment where crude remains soft.

Production is also being negatively affected by Crescent Point winding back capital spending on exploration and well development. The sale of those assets also reduces Crescent Point's net asset value, further weighing on its stock price and another reason for its sharp drop over the last month.

Nonetheless, Crescent Point does possess some high-quality core assets, and is therefore reporting impressive netbacks, which are an important measure of operational profitability.

For the second quarter, Crescent Point reported a netback of $35.95 per barrel sold, 1% greater year over year despite weaker crude; the driller's average basket price of $60.22 per barrel sold were 8% less than a year earlier.

Aside from being an impressive result, it's also one of the highest netbacks among Canadian upstream oil producers, thereby underscoring the considerable potential held by Crescent Point's assets.

Foolish takeaway

Despite the significant headway made to improve its operations, Crescent Point still has a long way to go in order to regain market confidence. It does, however, appear attractively valued, making it a compelling albeit risky play on higher crude.

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