Does Crescent Point Energy (TSX:CPG) Stock Even Stand a Chance?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has come a long way from the days when it was an investor darling energy stock that received praise from all corners of the room.

Today, after years of hefty dividend payments to shareholders and massive capital gains, the stock is currently trading at levels last seen in 2003 as the Canadian oil and gas industry has come crashing down. But this is not just a tale of an industry in crisis, it is also a tale of caution for companies.

Growth via acquisition leaves a bad taste in investors' mouths

For a long time, Crescent Point had been extremely successful in implementing its strategy of acquiring, exploiting, and developing high quality, long life reserves.

It emerged as a low cost producer with high-quality reserves, and these two factors made all the difference. Its stock price had more than doubled from 2007 to 2014, and that isn't even the whole picture.

Crescent Point had also been paying a very attractive dividend all the while, providing a regular stream of low tax income for the investor.

But with this doubling of Crescent Point stock price, valuation started to get out of hand and as debt levels kept rising and the oil and gas industry started to crumble, Crescent Point stock was hit hard. Today, it is trading at approximately $5.50 at writing, the same level witnessed back in 2003.

Crescent Point's third-quarter results

Debt levels have come down, the company is free cash flow positive to the tune of $395 so far this year, and multiples are at rock-bottom lows. The current price to cash flow multiple on Crescent Point stock is less than two times, a level that I can't even remember ever seeing. Given the quality of Crescent Point's assets, this doesn't appears to be justified.

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 isn't recognizing the actual market values of the company's assets.

The company is also working on finalizing the sale of select Southeast Saskatchewan gas infrastructure assets, which would strengthen the balance sheet further.

So far in 2019, the company made $975 million in dispositions. 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.

Consistent with the company's stated strategy, the proceeds from the sale of assets will continue to be allocated to debt reduction and share repurchases.

Does Crescent Point Energy stock stand a chance?

I would answer a definite *yes* to this question, with one obvious caveat: The Canadian oil and gas industry needs to see at least some improvement.

For its part, Crescent Point has been doing the right things and the company remains one that has a collection of lucrative quality resource plays that provide solid economics and low risk growth opportunities.

Regarding the Canadian oil and gas industry, it seems increasingly likely that the Trans Mountain pipeline expansion will move forward, so it seems that sentiment and economics of the oil and gas industry are on the cusp of improving dramatically.

Foolish bottom line

Crescent Point Energy stock is an energy stock with quality on its side, a dramatically improving balance sheet, low risk upside, and a focus on returning cash to shareholders through share buybacks.

If you believe that the tide will turn for the Canadian oil and gas industry, Crescent Point is one energy stock to own.

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