Why Crescent Point Energy (TSX:CPG) Has Gained 22% Since the Start of 2019

Description

Leading upstream oil producer and explorer **Crescent Point Energy** (TSX:CPG)(NYSE:CPG), after years of underperformance, has started unlocking considerable value for investors. The driller has gained an impressive 22% since the start of 2019, outstripping West Texas Intermediate's (WTI) 20%, and there are signs of further gains ahead.

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Progressively unlocking value

When the protracted oil slump began in 2014, Crescent Point earned the ire of the market because of its decision cut its dividend to shore-up its balance sheet and protect its cash flows. The downturn also indicated that many of the serial acquirer's earlier acquisitions may not have been as accretive as earlier claimed, and some assets were of questionable quality.

In response to the sustained slump in prices, Crescent Point cut its dividend two more times to a nominal $0.01 per share and commenced a strategic review aimed at unlocking value for disappointed shareholders. Since then, the driller has been reporting some progressively improving results, as the program aimed at unlocking value gains traction.

A key aspect of this strategy is to strengthen Crescent Point's balance sheet, which has seen it focus on making non-core asset dispositions with the proceeds being used to pay off the driller's burdensome debt load. By the end of the third quarter 2019, Crescent Point's net debt had fallen by 16% year over year to $3.4 billion, and it expects it to be less than $3 billion by the year's end.

The driller has also implemented a range of initiatives to boost profitability from its core asset, notably in response to falling oil production caused by asset sales, which saw third-quarter hydrocarbon output fall by 11% compared to a year earlier. These include identifying synergies and reducing operating as well as general and administrative expenses.

As a result, Crescent Point reported a solid third-quarter net operating netback of $32.26 per barrel, which was a mere 5% lower than a year earlier, despite Crescent Point's average sale price per barrel falling by 20% because of sharply weaker crude. That impressive performance can be attributed to a combination of lower operating expenses, which fell by 9% year over year, and Crescent Point's hedging strategy, which is aimed at minimizing the impact of weaker crude on its financial performance.

Crescent Point's netback is also one of the highest among its peers, highlighting the profitability of its operations, even in a difficult operating environment weighed down by weaker crude. Even a combination of lower oil production and sharply weaker oil prices had little material impact on Crescent Point's cash flow from operating activities for the third quarter, which only declined by 15% to $402 million.

Nevertheless, the company reported a net loss of $302 million compared to a $30.5 million profit for the equivalent period in 2018, primarily because of an increased impairment charge, along with the impact of lower oil production and prices.

These factors bode well for Crescent Point's performance for the foreseeable future, even if another oil price collapse occurs in 2020, as some pundits have predicted.

Crescent Point is also taking advantage of its depressed price by engaging in a share buyback, with it having acquired around 14 million shares to date. That will help to boost earnings per share by reducing the outstanding float.

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Foolish takeaway

Even after gaining a notable 22% for the year to date, Crescent Point is still attractively valued and will continue to deliver further value for investors, as its strategy aimed at unlocking value gains further traction. This makes Crescent Point an attractively valued contrarian play on higher oil, while shareholders wait for its stock to appreciate, they will be rewarded by its nominal dividend yielding 1%.

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Date
2025/08/26
Date Created
2019/11/13
Author
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