Latest News Indicates That Crescent Point (TSX:CPG) Is Poised to Soar

Description

Beaten-down upstream oil explorer and producer **Crescent Point** (TSX:CPG)(NYSE:CPG) continues to advance its plans aimed at unlocking value for investors by bolstering its balance sheet and return on capital invested. The upstream oil producer has done this through a combination of reducing costs, focusing on the development of core oil properties, and selling non-core assets.

Improved outlook

Crescent Point has announced that it intends to sell its natural gas infrastructure assets in Saskatchewan for $500 million. This is the third major asset disposition for 2019, which, in aggregate, have generated $1.45 billion for the beleaguered driller. Crescent Point intends to use those proceeds to reduce its massive pile of debt. That will further strengthen Crescent Point's balance sheet, thereby bolstering its financial flexibility.

The company anticipates that net debt at the end of 2019 will be $2.8 billion and on receipt of the proceeds of the asset sale that will fall to $2.3 billion, which will be a very manageable 1.3 times adjusted funds flow from operations. Crescent Point also has no near-term material debt maturities, providing it with enough time to amass the cash required to meet its financial obligations and for crude to rebound. That bodes well for Crescent Point's ability to unlock value for investors while weathering the prolonged slump in crude, which has entered its fifth year.

Crescent Point's success with turning around its operations is apparent from its credible third-quarter 2019 results. This includes an operating net back of $30.93 per barrel pumped, which is one of the highest among oil producers operating in Canada. That netback increased to $32.26 per barrel when Crescent Point's commodity hedges are included. The driller has also been able to lower its operating expenses by 9% year over year to $12.38 per barrel of crude produced, boding well for increase profitability, even if oil remains weak for the foreseeable future.

As Crescent Point sells non-core assets, its decline rate and the amount of sustaining capital required will decrease, leading to greater operational efficiencies and profitability.

Crescent Point has also commenced a share buyback because the company is trading at well below the indicative fair value of its oil reserves, making it an opportune time to repurchase its shares. As at the end of the third quarter, Crescent Point had repurchased just over 16 million shares at an average price of around $5.09 per share. By reducing its share float, Crescent Point will boost the value of its reserves and earnings per share, which should give its market value a healthy lift.

Foolish takeaway

It is easy to understand why Crescent Point has been so harshly handled by the market. A history of diluting existing shareholders to fund acquisitions of questionable quality, weak balance sheet, and declining profitability didn't bode well for Crescent Point's future in a difficult operating environment where oil is trading for less than US$60 per barrel.

Nevertheless, the driller has made significant inroads into streamlining its operations, boosting profitability, and reducing debt, which all bodes well for its outlook. For these reasons, now is the time to buy Crescent Point with it poised to deliver considerable value for shareholders.

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