Crescent Point (TSX:CPG): Buy Today and Profit in 2020

Description

Until quite recently, upstream oil explorer and producer **Crescent Point** (TSX:CPG)(NYSE:CPG) has been roughly handled by the market.

After the latest rally, it has gained 33% since the start of 2019, keeping pace with crude and poised to firm further. After gaining a reputation for destroying shareholder value through questionable acquisitions funded by dilutive stock issues, it appears that Crescent Point is finally capable of delivering value.

The driller's problems began in late 2014, when the price of crude collapsed and petroleum entered a multi-year price slump, which saw a sharp decline in cash flow and profitability that threatened Crescent Point's already heavily levered balance sheet.

As a result, management completed a strategic review and implemented a turnaround program aimed at boosting profitability and strengthening Crescent Point's balance sheet.

Improving outlook

By the end of the third quarter 2019, it was apparent that the program was progressing well and gaining considerable traction. Net debt was down 43% compared to the end of 2018 to $2.5 billion, and the maturity date for Crescent Point's credit facility had been extended to October 2023, giving additional time for oil to recover and accumulate the requisite funds.

While total production for the first nine months of 2019 had declined by 6% year over year because of asset sales and crude weakening by 15%, fund flow and earnings grew.

Crescent Point's adjusted funds flow from operations remained flat, while it reported a net loss of $101 million**,** or less than half of the $226 million loss posted for that period in 2018.

The improvement in Crescent Point's operations are reflected by its net back, a key measure of operational profitability. The net back for the first three quarters of 2019 grew by 1% to $34.37 per barrel because of lower operating expenses and its oil price hedges**,** which help protect Crescent Point's earnings from weaker crude.

Crescent Point's focus on boosting internal efficiencies will bolster its profitability**,** leading to higher earnings as crude rallies.

It also has one of the lowest decline rates among its peers, meaning that it spends comparatively less on sustaining capital in order to maintain oil production. This, in combination with a focus on cost cutting, the quality of its oil assets and growing efficiencies generated by a focus on divesting non-core operations**,** will likely boost profitability heading into 2020.

While the ongoing operational improvements mean that Crescent Point is poised to deliver value for shareholders, the fact that it's trading at a deep discount to the value of its oil reserves makes now the time to buy.

After allowing for the sale of Crescent Point's Uinta Basin as well as Saskatchewan oil assets and deducting long-term debt, leases and decommissioning liabilities, it has an after-tax net asset value (NAV) on a diluted basis of around $15.64 per share.

That's almost three times greater than Crescent Point's current market value, highlighting the considerable upside available, particularly if crude continues to rally.

Foolish takeaway

Crescent Point has been harshly handled by the market over the last three years — deservedly so — there are clear signs that its operational performance is improving.

That**,** along with firmer crude and increased optimism surrounding the outlook for oil**,** positions Crescent Point to deliver value for shareholders.

Its appeal as an investment is enhanced by the fact that it's trading at a steep discount to the after-tax NAV of its oil reserves, underscoring that now is the time to buy.

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