Is Crescent Point Energy (TSX:CPG) Stock a Buy in 2020?

### Description

The Canadian energy sector is full of stocks that continue to trade at depressed levels, but a recent rally in the price of oil has contrarian investors wondering if this is the time to start adding energy stocks to their portfolios.

Let's take a look at **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) to see if it deserves to be on your buy list.



## Rough five years

Crescent Point Energy used to be a top pick among income investors. The company had a reputation for paying a steady and lucrative dividend, and investors regularly scooped up its equity issues when the firm needed cash to make acquisitions. For years, Crescent Point was one of the most aggressive buyers in the oil patch, boosting reserves and production.

The board even maintained the distribution through the Great Recession, but was unable to hold it in recent years, as the oil rout that began in 2014 continued to hit cash flow. Crescent Point cut the monthly dividend from $0.23 per share to $0.10 in 2015 and then to $0.03 in 2016, before the last reduction to $0.01 in 2019.

The stock hasn't fared well through the turbulent times. Crescent Point traded for $47 per share in the summer of 2014. It hit a closing low of $3.26 in February 2019, and has since bounced between $4 and $6 per share. At the time of writing, Crescent Point trades for $5.90 compared to $4.50 just four weeks ago.

## Upside

The recent recovery in oil prices could indicate a strong 2020 is on the way.

WTI oil now trades near US$62 per barrel, up from US$53 in early October. The phase one trade deal between the United States and China should trigger the removal of tariffs and reduce fears about a global recession. This bodes well for the oil market. Any sign of further progress in the trade dispute could extend the rally.

Ongoing geopolitical tensions in the Middle East might be behind the recent oil surge. The U.S. just launched attacks on Iran-backed groups in Syria and Iraq. Any escalation in conflicts in the regions could drive oil prices higher in 2020.

The attack on Saudi Arabia's production facilities in September briefly sent oil prices soaring by 20%, so we have an indication of the upside potential on a major disruption.

On the domestic side, new pipelines could finally be on the way to help Canadian oil producers get their product to the United States and international markets. The federal government plans to move ahead with Trans Mountain, and Keystone XL could finally get completed in the next few years.

The more confident investors are that pipelines will be built, the more likely we will see a flow of funds back into Canadian oil and gas stocks.

## Should you buy Crescent Point Energy?



Crescent Point Energy still carries significant debt, and that is going to remain an overhang for the stock. Any drop in the price of oil would be negative, and the share price tends to make big moves in a short period of time, as we have seen with the volatility in 2019.

I wouldn't load up on the stock today, but oil bull might want to start nibbling.

In the event WTI oil takes a run at US$70 per barrel, Crescent Point Energy could easily move back toward $8 per share. There is also a chance Crescent Point Energy could become a takeover target if the industry begins to see light at the end of the tunnel.

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