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Now Is the Time to Load Up on Crescent Point Energy (TSX:CPG)

Description

One-time serial diluter of shareholders **Crescent Point Energy** (TSX:CPG)(NYSE:CPG), which has gained 29% over the last year, finally appears poised to unlock considerable value for investors.

The oil price collapse that began in late 2014 placed substantial pressure on Crescent Point, forcing it to cut its dividend to a token $0.01 per share as the driller sought to protect its cash flow and balance sheet.

The prolonged oil slump also forced it to sell non-core assets as the driller fought to reduce debt to a sustainable level and boost cash flow as well as earnings.

There are signs that the strategic turnaround initially commenced in 2018 has gained considerable traction and Crescent Point is on the cusp of delivering significant value, particularly if crude continues to rally.

Operational improvements

Key to that program has been the monetization of non-core assets and reducing debt to a manageable level. By the end of the third quarter 2019, Crescent Point's net debt had fallen by a notable 17% to $3.4 billion, around a manageable two times EITDA.

Crescent Point is targeting even lower net debt, forecasting that it can be reduced to $2.3 billion, which would improve its balance sheet and further enhance its financial flexibility.

The driller is also focused on boosting profitability by controlling costs. For the third quarter, Crescent Point's netback, a key measure of operational profitability, was $32.26 per barrel, or 5% lower than a year earlier despite WTI's average price for the period being 19% lower.

That can be attributed to a combination of lower operating expenses, which fell by an impressive 9% year over year and Crescent Point's hedging program that's designed to protect it from the downside created by weaker oil.

Crescent Point's netback will keep growing because it is focused on unlocking further efficiencies to reduce costs, notably general and administration expenses, capital costs and operating expenses. When combined with higher oil the driller's earnings and cash flow will grow at a solid clip.

Crescent Point's netback is also one of the highest among Canadian upstream oil producer, which can be attributed to its focus on driving greater operational efficiencies, the quality of its oil acreage and the fact that it isn't exposed to the significant discounts applied to Canadian heavy crude. That makes it one of the most attractive plays on higher crude among Canadian upstream energy stocks.

Clearly, there's considerable upside ahead for Crescent Point's shares given that using the 2018 net present value of its oil reserves, it has an after-tax net asset value of $17.30 per share. This is almost three times greater than its current market value.

Even after accounting for the sale of Crescent Point's Uinta Basin and Saskatchewan oil assets in October 2019, that NAV falls to around $15.64 per share, illustrating the considerable upside available should oil continue to rally.

Foolish takeaway

Crescent Point is trading at a deep discount to its NAV, making it a very attractively valued play on higher oil. When coupled with the driller's stronger balance sheet, lower costs and rising profitability Crescent Point is poised to deliver considerable value during 2020, especially if oil continues to rally.

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