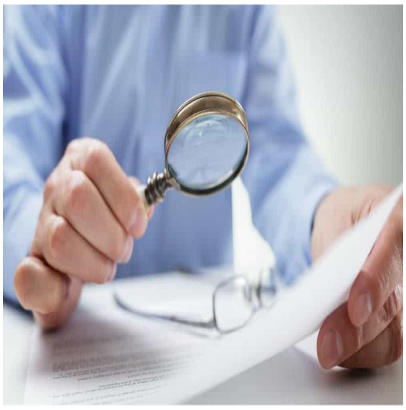

Crescent Point Energy (TSX:CPG) Is Buying Back $13 Million in Stock Every 90 Days

Description

Crescent Point Energy (TSX:CPG)(NYSE:CPG) executives think the company's stock is an incredible bargain, so much that they're dedicating millions of dollars every quarter to repurchase its own shares. With limited financing visibility, this is a bold strategy. If management is right, investors could see their investments soar in value.

From 2002 to 2014, Crescent Point shares increased in value by more than 1,000%. Since that peak, however, they've shed nearly 90% in value. Management is betting big that the share price will ultimately reverse course. Should you bet alongside them?

Wrong place, wrong time

In 2014, Crescent Point did everything wrong. It acquired CanEra Energy for $1.1 billion, including the assumption of $348 million in debt. Then it acquired assets in Saskatchewan from Polar Star Canadian Oil and Gas for $334 million. Soon after, it bought assets in Saskatchewan and Manitoba from **Lightstream Resources** for $378 million. It also paid a dividend yield double the average of its North American peers.

At the time, oil was above US$100 per barrel. Within months, prices collapsed below US$50 per barrel. Crescent Point spent and distributed nearly $2 billion at the very top of the market.

Loaded with debt and increasingly uneconomic assets, the stock was ripe for a correction. The company slashed its capital-expenditure budget but, for some reason, continued to execute more deals. In 2015, it purchased Legacy Oil + Gas for $1.5 billion, including the assumption of $967 million in debt. Then it purchased Coral Hill Energy in a private deal valued at $258 million.

Oil prices never recovered, meaning Crescent Point overpaid for nearly all of its acquisitions. With dwindling cash flow, debt was becoming a serious problem. Management slashed the dividend several times, divested many of its projects at fire-sale prices, sold stock at depressed valuations, and raised even more debt.

With this history, it shouldn't be a surprise that shares have fallen by 90%.

Waiting on a catalyst

It seems like the company is finally on the mend. Non-core assets have been sold, debt has been reduced by 45%, and operating costs have come down significantly. The firm projects more than $200 million in free cash flow in 2020.

Since August, shares are up 30%. Yet they're miles away from their former highs. The market still doesn't believe in the company's turnaround, so executives have taken matters into their own hands. Last year, it repurchased more than $10 million in stock every quarter.

When shares rebound, early investors will see their gains multiplied by these buybacks, or at least that's the theory. If history is any indication, Crescent Point will prove terrible at allocating capital. After all, the stock still trades at 2003 prices.

Will CPG be the top-performing stock of 2020? Quite possibly. But despite the upside potential, this is simply not a company worth the benefit of the doubt.

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rvanzo