



1 Contrarian Oil Play to Buy Right Now

Description

The restrictions brought about by the pandemic hit many sector hard. However, perhaps none were hit as hard as the energy sector. Within this sector, [pure-play energy names](#) like **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) dealt investors a rough blow this past year.

Crescent Point is a company that's been in decline since the last bull market in commodities approximately 10 years ago. Since then, shares have dropped from around the \$45 level from 2011 to 2013 to as low as \$1 per share following the onset of the pandemic.

Today, shares of Crescent Point trade around \$5 per share — a nice bump for investors who'd bought the bottom. That said, this is a stock with a tonne of room to make up for investors who have held Crescent Point in their portfolios over the long term.

Here's why there may be more room to run for this stock from here.

Strong earnings fueled by higher oil prices

Crescent Point is one of those high-leverage oil plays that really benefits from a higher commodity price environment. Indeed, this sensitivity to oil prices was on display for investors during the company's recent earnings report.

In Q1, Crescent Point reported a profit of nearly \$22 million. For a company with a market capitalization of nearly \$3 billion, this may not seem significant. However, when comparing to last year's \$2.3 billion loss due to a massive non-cash impairment charge on its oil & gas assets, these results sure look like a turnaround to investors.

The company posted revenue growth of approximately 8% year over year, bringing in \$630 million this past quarter. This came despite a production decrease, as oil prices more than made up the difference for Crescent Point this past quarter. The company was able to book an average price per barrel of oil of \$58.65, up significantly from the \$42.64 number last year.

Additionally, Crescent Point's bottom-line performance of \$95 million in adjusted Q1 earnings came in at roughly \$0.18 per share. On an annualized basis, this would have Crescent Point valued at less than seven times earnings. Indeed, that's deep value territory for any investor here.

Bottom line

It appears Crescent Point is well positioned to take advantage of stabilizing (or hopefully rising) oil prices from here. For those bullish on a continuation of this bull market, Crescent Point's upside is impressive.

The company's finally churning out impressive excess cash flow, producing approximately \$122 million in free cash flow this past year. At this rate, the company is trading at less than 24 times cash flow and could be more attractively priced on a forward-looking basis for those expecting higher commodity prices on the horizon.

Whether or not one is bullish on oil, Crescent Point represents a deep-value play at these levels. I'm not going to suggest it can get back to its all-time highs anytime soon. However, there are large gaps to fill on the upside here.

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