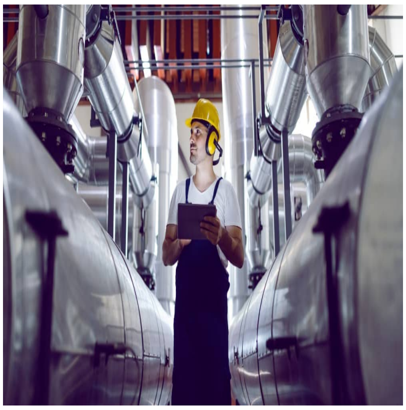

Could Crescent Point Energy Stock Hit $10?

Description

Crescent Point Energy (TSX:CPG)(NYSE:CPG) is up more than 80% this year on rising oil prices and renewed investor interest. Is this the right time to add CPG stock to your portfolio?

Oil market

WTI oil trades near US$73 per barrel compared to US$36 last fall. The size and sustainability of the rally so far in 2021 caught most analysts by surprise. Consensus predictions coming into the year called for oil to average US$50 per barrel through 2021. Barring a total meltdown in the second half of the year, the result is going to be much higher.

Tight supply and rebounding demand are responsible for the recovery. The International Energy Agency (IEA) says excessive oil stockpiles built up last year have been drawn down to normal levels. OPEC+ is taking its time adding new supply to the market, and fuel demand is rising, as global economies open up and travel restrictions ease.

Iran poses a near-term risk to the rally. An end to sanctions would potentially lead to a flood of oil hitting the market. That being said, there is no guarantee a deal will be reached, and it is likely that the country would add supply at a measured pace to take advantage of high prices.

Looking ahead, analysts widely expect WTI oil to hit US$80 by the end of the year and calls for a surge to US$100 in 2022 or 2023 are more common.

Crescent Point outlook

Crescent Point (TSX:CPG)(NYSE:CPG) went from $47 per share in 2014 to below $1 last year at the worst of the pandemic plunge. Investors who had the courage to buy at the low are already sitting on nice gains. Those who missed the big bounce are searching for attractive entry points on the stock.

Crescent Point used to be an acquisition machine and a dividend darling before the bottom fell out of the oil market. After several years of non-core asset sales, the company is doing new deals. In the first quarter of the year, Crescent Point bought assets in the Kaybob Duvernay region for $900 million. The deal is immediately accretive and boosts Crescent Point's 2021 excess cash flow generation to $650 million at average WTI oil prices of US$65 per barrel. Crescent Point finished Q1 2021 with net debt of roughly $2 billion. As long as oil prices hold or extend their gains, the company could easily wipe out the debt position in the next three years.

Should you buy the stock now?

Crescent Point trades for $5.50 at the time of writing. The stock price has been in a pattern between $4.50 and $5.80 over the past four months. Ongoing volatility should be expected, but oil continues hold at very profitable levels for Crescent Point and its peers.

Investors who are of the opinion oil is going to continue its surge through the summer might want to start a small position at this level. There is a chance we could see another round of profit taking in the oil market before the rally move the price meaningfully higher. If that happens investors could get another chance to pick up Crescent Point below $5.

In the next two years, however, oil is likely headed higher, and this stock could easily run to $10 if WTI breaks above US$80 per barrel.

I would probably take a half position now and look to add on any weakness.

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