Why Crescent Point Energy (TSX:CPG) Stock Is up 16%!

Description

Crescent Point Energy (TSX:CPG)(NYSE:CPG) stock is up a jaw-dropping 16% this morning. Two factors seem to have culminated today to push the stock to its highest price since July. If these trends continue, the stock could rise much higher. Here's what investors need to know.

Crescent Point Energy's potential turnaround

Crescent Point Energy is up this morning, but the stock has been steadily declining for years. In fact, today's price is 90% lower than its peak in mid-2014. In 2015, of course, the global energy market collapsed. Natural gas and oil prices have been steadily declining since then. That's compressed Crescent Point's valuation.

However, the company released an earnings report today that indicates a potential turnaround. The company said it had made significant improvements to its balance sheet this year and that free cash flow (FCF) could be between $625 and $875 million in 2022. For context, the company's current market value is $2.9 billion, or roughly three times FCF.

Those FCF estimates are based on an assumption that the price of West Texas Intermediate crude oil is between US$65 and US$75 per barrel. At the moment, the price is US$70.2.

As you can see, Crescent Point is on target to significantly boost cash flow in 2022. The management team is also confident that it can pay back much of its debt by then. Once debt has been mitigated, the company's interest expenses should decline, boosting cash flows further.

This rosy outlook for the future has enabled the team to boost quarterly dividends to $0.03 per share. Energy market expert Eric Nuttall believes dividends could skyrocket next year, as the company unleashes a torrent of free cash flows.

Energy shortage

Crescent Point's optimism isn't just based on the rebound in oil prices, but also the path ahead. Industry insiders believe the price of oil could shoot past US$100 a barrel in the near term. The world faces a shortage of energy to fuel the post-COVID boom.

This morning, the Organization of the Petroleum Exporting Countries raised its forecast for oil consumption in 2022 by 900,000 barrels per day. That's one of the biggest bumps in demand we've seen in recent history. Oil producers and suppliers could struggle to catch up. Meanwhile, major economies like China and the United States have released some of their strategic oil reserves in recent months.

If these inflationary pressures persist, producers like Crescent Point could see a strong rally. Betting on these oil stocks could be a way for investors to mitigate the risk of this energy crisis.

Bottom line

Crescent Point stock surged this morning as the company's 2022 forecast was better than expected. If the price of oil remains stable, Crescent Point could significantly boost cash flows and dividends next year. However, there's a growing chance that oil could actually be much higher than Crescent Point's forecast.

Investors seeking a bargain in the midst of this potential energy crisis should add CPG stock to their watch lists.

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