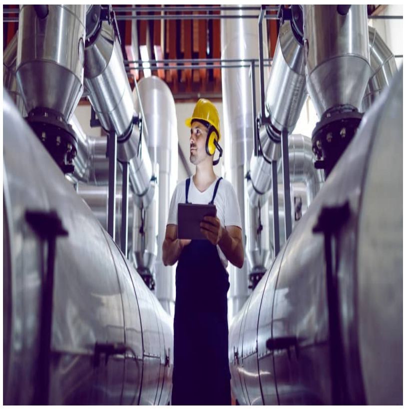

4 Reasons to Buy Crescent Point Energy Stock in April

Description

One Canadian oil stock surged 468% in 18 months on the back of the 168% surge in WTI from US$40.6 to US$106.95/barrel. **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) is a smaller player than the three oil giants — **Canadian Natural Resources**, **Suncor Energy**, and **Cenovus Energy**. Crescent Point has most of its assets in Western Canada. It acquired Kaybob Duvernay assets in April 2021 and even repaid the $670 million debt it took for the acquisition. While other oil stocks are trading at a high price, Crescent Point can give you exposure to the $100 oil for less than $10 a share.

What is driving oil stocks?

Oil prices are likely to remain around $70-$100 throughout the year, even if the Russia-Ukraine war ends. Many western countries, including the United States and Europe, have imposed sanctions on Russian oil. Their other alternatives are Saudi Arabia and Iran. But there are delays in removing Iran sanctions, and Saudi Arabia is facing attacks from local rebels. The United States is releasing 180 million barrels of oil from its emergency reserves over the next six months. But this is not a sustainable solution to the absence of Russian oil.

Amid the energy crisis, Canada appears to be a safe and sustainable alternative, as it can scale its production.

> "We're pleased to hear that there are discussions around enhancing North American energy security. Instead of going cap in hand to the Saudis, Iranians and Venezuelans to replace Russian energy, instead of replacing dictator oil with dictator oil, come to your liberal democratic friends and allies in Canada."
> *The Wall Street Journal article citing Alberta premier Jason Kenney's spokesman Justin Brattinga.*

But there are not enough pipelines to transmit extra oil from Canada to the United States. Moreover, U.S. president Joe Biden has no plans to revive the Keystone XL Pipeline project. Even if Biden turns positive and expedites pipeline projects, none of the pipelines will become operational before 2023.

The above factors will keep oil prices high in 2022. I have been refraining from buying energy stocks at their current highs, but Crescent Point stock is a buy for four reasons.

Benefit from rising oil prices

High oil prices bode well for oil companies. They have been operating at a profit when the oil price was around US$60/barrel. Any price above that will generate excess cash flow. Crescent Point generated over $785 million of excess cash flow in 2021 and expects to generate another $1.1 billion in excess cash flow in 2022, assuming an average WTI of US$80/bbl.

This excess cash flow is after capital spending, dividend payments and stock buybacks. It is still a conservative estimate, as some economists expect oil prices to cross $150 if the war continues.

Crescent Point increases dividends and share buybacks

Crescent Point is sharing its high profits from the energy crisis with its shareholders. It doubled its dividend in 2021 and grew it by another 50% in 2022. It also accelerated share buybacks from $100 million to $150 million. If oil continues to trade above $100, the company could announce a higher buyback or spend it on acquisitions.

Crescent Point's leverage

Another way Crescent Point is enhancing shareholder value is by reducing its leverage. In 2021, the company reduced its net debt by $144 million to $2 billion. It expects to reduce the net debt to $1.3-$1.4 billion in the next six months. This will reduce its net debt-to-adjusted funds flow multiple to one at US$55/bbl WTI. This means Crescent Point can maintain a healthy balance sheet in the long term when oil prices return to the pre-pandemic level of US$55.

The company could use excess cash flow to reduce debt further and lower its interest burden. When leverage reduces, the company has more free cash flow to distribute to shareholders.

Crescent Point's cost efficiency

While Crescent Point is improving its balance sheet, it is also enhancing its operating efficiency. The company is investing in developing oil wells and reducing the cost by 20%. It is investing in assets that have higher returns and fund flows.

All the above fundamentals make me bullish on Crescent Point Energy.

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