



## Crescent Point Energy Stock up 76% in a Year: Is it a Buy at \$8.7?

### Description

Oil and gas are commodities that derive their price from demand and supply. There is no difference in the oil produced by **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Yet Suncor outperformed Crescent Point during the 2014 oil crisis because of cost leadership. As these companies have no control over the oil price, they reduce production costs to survive a downturn. Crescent Point is a classic example; the stock surged 190% since January 2021 on the back of the oil price rally.

### Oil price volatility and Crescent Point

Crescent Point is a small company with higher production costs. Hence, it is more sensitive to oil prices than Suncor. Crescent Point stock fell 70%, as the 2014 crisis reduced WTI price from over US\$100 in June 2014 to just over US\$30 in January 2016. The dip in oil price pushed it into deep losses that it had to [slash](#) its dividend by 57% to save money. Even Suncor took a plunge, but it was more cushioned with a 30% dip.

A similar trend appeared during the pandemic. WTI crude dipped from over US\$61 in January 2020 to around US\$20 in March 2020. Even Suncor couldn't keep up with this price and [reported losses](#). Crescent Point's stock fell 84%, while Suncor's stock fell 64%.

Oil stocks are currently in an upturn with a WTI price above US\$100. This upturn is expected to last throughout the year as the Russian oil sanction has created an [energy crisis](#). The Organization of the Petroleum Exporting Countries (OPEC) countries are not willing to accelerate oil production. There is not enough supply to fill up the gap in Russian oil.

### Capital spending and oil prices

Oil price and capital spending have a direct correlation. As oil is a capital-intensive business, companies do not produce oil if the oil price is not lucrative (below their breakeven point). They use this time to complete the maintenance of their facilities. It is during this downturn that oil companies'

leverage increases. When oil demand increases and pushes up oil, an upturn occurs, encouraging oil companies to increase capital spending and boost production.

Crescent Point has not increased its capital spending, despite rising oil prices. The company looks to maintain its 2022 capital expenditure between \$825 million and \$900 million. Crescent Point plans to spend 26% capital on the Kaybob Duvernay project and earn 24% net operating income from it at US\$80/barrel WTI.

## What to expect from Crescent Point's first-quarter earnings

Oil companies expect the average WTI price to be between US\$80 and US\$100 a barrel in 2022. **Cenovus Energy's** ([TSX:CVE](#))([NYSE:CVE](#)) [first-quarter earnings](#) reported an average WTI price of \$94.29/barrel, as the price moved from US\$76 to US\$124 following the Russian invasion of Ukraine. The company is guiding an average price of \$99 for 2022. Such strong earnings pushed Cenovus Energy's stock price up 10% on earnings day.

Crescent Point will release its first-quarter earnings on May 12. It would have a similar average WTI as Cenovus Energy. A US\$100 WTI means Crescent Point could achieve the higher end of its 2022 guidance for excess cash flow. The company expects to earn \$1.1-\$1.3 billion in excess cash flow, assuming a WTI of US\$80-US\$100. It will use its excess cash flow to reduce net debt from \$2-\$1.3 billion and give returns to shareholders through higher [dividends](#) and share buybacks.

But it will grow its dividend to a level where it is sustainable. It has already increased dividends twice, 36% in the December 2021 quarter and 5% in March 2022 quarter. I do not expect the company to announce further dividend increases for this year, but it could accelerate its share buyback and debt repayment. The company wants to hold on to the excess cash flow to improve efficiency and have enough liquidity during a downturn.

## Should you buy Crescent Point stock at \$8.7?

Like Cenovus Energy, Crescent Point stock could also surge 10-12% on its earnings day. You can buy the stock ahead of its earnings to benefit from the uptrend. But if you are looking for a long-term investment, I would suggest buying Crescent Point in a downtrend.

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1. Energy Stocks
2. Investing

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