Crescent Point Energy (TSX:CPG): Buy Now or Wait?

Description

Crescent Point Energy (TSX:CPG)(NYSE:CPG) just reported strong Q2 2022 results. The stock caught a new tailwind in recent weeks but still trades well off the 2022 highs. Investors who missed the big energy rally earlier this year are wondering if CPG stock is now undervalued and a good buy.

Crescent Point Energy overview

Crescent Point Energy has a current market capitalization $5.6 billion. The company produces oil, natural gas liquids, and natural gas at sites located in Canada and the United States.

Crescent Point Energy was once a darling among dividend investors who flocked to the stock for its generous and consistent payouts. For years, Crescent Point fueled aggressive takeovers through debt and share sales.

The good times, unfortunately, ended in late 2014 when the price of oil crashed. In June of that year, Crescent Point traded for $47 per share and paid a monthly dividend of $0.23 per share. Despite the crash in the price of oil, the board kept the dividend in place for another year but was forced to slash the distribution to $0.10 in September 2015.

The situation continued to get worse, as high debt and plunging revenues took a toll on the stock. Another dividend cut reduced the monthly dividend to $0.03 in 2016. Management then went to quarterly distributions of $0.01 per share in 2019, and finally down to just a penny per year during the rout in 2020. At its lowest point, Crescent Point traded for less than $1 per share.

Recovery

Investors who had the courage to buy CPG stock at a buck are now sitting on big gains. The stock trades near $10 at the time of writing and was above $13.50 at one point this year. The rebound off the 2020 low is being driven by a significant recovery in the price of oil and natural gas. This has enabled Crescent Point Energy to reduce its debt to the point where it is making acquisitions again and is returning cash to shareholders.

Crescent Point Energy spent $900 million to buy Shell Canada's Kaybob Duvernay assets in Alberta in early 2021. The deal added 30,000 barrels of oil equivalent per day (boe/d) in production and significant undeveloped land in the Kaybob area. Crescent Point used ongoing WTI oil prices of US$50-60 per barrel as its metric for doing the deal. Oil has been above US$100 per barrel for much of 2022, so the purchase is paying off nicely.

Earnings

Crescent Point reported Q2 2022 adjusted cash flow from operations of $599 million compared to $388 million in the same period last year. Adjusted net earnings from operations jumped to $272 million from $118 million in Q2 2021.

Net debt dropped from $2.32 billion to $1.47 billion. This steep reduction in the debt position is giving Crescent Point Energy the flexibility to return more cash to shareholders. The quarterly base dividend is back up to $0.08 per share for $0.32 on an annualized basis. That's good for a 3.2% yield at the current share price.

Starting in Q3 2022, the company will return up to 50% of discretionary excess cash flow to shareholders on top of the base dividend. This means special dividends and additional share repurchases are likely on the way if oil remains near current levels. Under the current normal course issuer bid (NCIB), Crescent Point can buy back up to 10% of its outstanding common stock.

Outlook

Crescent Point expects to generate more than $1.4 billion in excess cash flow in 2022 with $775 million coming in the second half of the year, assuming WTI oil averages US$100 per barrel.

Total average annual production is expected to be $130,000-134,000 boe/d in 2022. Capital outlays are only about $900 million, so Crescent Point is set up to be a cash flow machine in this environment.

Should you buy Crescent Point Energy stock now?

The stock price dropped from around $13.50 on June 8 to less than $8.50 on July 6, so investors need to be willing to ride out some serious volatility if the price of oil delivers another meaningful dip. That being said, the stock appears very cheap at the current WTI oil price near US$98 per barrel and you get paid a decent dividend yield with special dividends probably on the way in the coming months.

I wouldn't back up the truck, but oil bulls might want to add Crescent Point to their portfolios today.

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Date
2025/07/21
Date Created
2022/08/01
Author
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