Prepare Yourself for Crude Oil's Recovery With Crescent Point Energy Corp.

Description

Crude oil prices are still suffering below the $50-per-barrel mark, but investors who understand the ebbs and flows of the market know how to take advantage of this opportunity. Inevitably, oil prices will return to a normal range and energy stock prices will recover, but for now, many well-performing companies are trading at a discount. Among these discounted energy companies is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) which has managed to outperform many of its competitors in recent quarters.

Crescent Point has released its fourth-quarter financial results, and despite the collapse of the oil industry, it has posted record revenues and production. But are these results sustainable or is the company actually teetering on the edge of insolvency?

Repeatable records?

Unlike its Canadian competitors who are bogged down in the oil sands, Crescent Point has managed to turn its niche assets in Saskatchewan's Bakken region, North Dakota, and Utah into record-setting results. In the fourth quarter, funds flow from operations reached a new record of $572 million, up from $533 million last year. This was achieved thanks to record average daily production totals of 153,800 barrels of oil equivalent (BOE) per day, up from 127,641 BOE during the same period last year.

In a quarter where many energy producers suffered, net income totaled $121 million ($0.27 per share), up from a net loss of $13 million ($0.03 per share) in Q4 2013, despite average crude prices falling to $65.74 from $77.38 and net backs falling to $43.88 from $48.47.

These fourth-quarter results helped Crescent Point's year end funds flow from operations reach a new record of $2.4 billion, up from $2.04 billion in 2013. Net income rose sharply over the year to $508 million ($1.21 per share) from $144 million ($0.37 per share). This represents a year-over-year increase of 251%, and the intriguing thing is that these results could become consistent, as long as oil recovers by the end of 2016.

Acquisitions on the horizon

Crescent Point is looking to expand its operations in the coming year in order to take advantage of cost savings that it believes could reach 15-20% in certain capital projects. Crescent Point is projecting to spend $1.45 billion in the coming year on capital expenditures in order to drill 617 new wells. These new wells will be necessary in order to take advantage of the 22% increase in proved-plus-probable reserves discovered recently.

However, Crescent Point is not content to only develop its current assets. The company may have hinted in its recent report that it is ready for another round of acquisitions. In the quarterly report it was revealed that Crescent Point had increased its line of credit by 40% to $3.6 billion.

Currently, Crescent Point has already deployed $1.27 of its line of credit, leaving $2.33 billion available for acquisitions, which is roughly the amount the company spent on acquisitions in 2014.

The belief throughout the industry is that this is a prime time to seek out smaller producers who are drowning in debt and are unable to manage low commodity prices. In a recent conference call, management at Crescent Point revealed that they are talking with “various parties” and that the Denver-Julesburg Basin of Colorado could be a likely territory for acquisitions.

The belief among analysts is that the rich dividend of $2.76 (annualized) with a yield of 9.84% should remain rather secure during this season of low prices and potential acquisitions.

The diamond in the rough

Many believe that Crescent Point Energy is one of the few companies that will emerge stronger than before the current oil-price crises began. Thanks to Crescent Point’s hedging strategy, aggressive acquisition, and development strategy, it is setting up investors for great returns when the market stabilizes.

Crescent Point Energy closed Thursday at a discounted price of $28.06, right in the bottom end of its 52-week range of $21.20-48.68. The average price target is currently set at $35.85, but if Crescent Point can keep up these earnings results with $50 crude prices, this could turn into a very lucrative long-term investment.

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Date
2025/08/24
Date Created
2015/03/17
Author
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