

Action Note

Equity Research

September 13, 2021

Energy Producers - Junior & Intermediate

Crescent Point Energy Corp.

(CPG-T) C\$4.68

Reinstates Competitive Dividend with only Small Amount of FCF

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Event

Reinstates Competitive Dividend. Preliminary 2022 Guidance and 5-Year Plan.

Impact: POSITIVE

Increases Nominal Dividend to be Competitive With Peers: Earlier this morning, CPG announced it would increase its quarterly dividend to \$0.03 (from prior dividend amount of \$0.01/year). The first dividend at this level will be paid to shareholders of record on December 15th. We forecast this dividend equates to 4% of 2022E CF or 10% of 2022E FCF.

- **Our View:** The new dividend level places CPG's current yield between its two large, non oil sands, Canadian, oil-weighted peers - Whitecap (WCP-T; 3.5%) and Enerplus (ERF-T; 2.0%). While the dividend increase is clearly a positive step, we can't help but look forward to the company's significant FCF and ultimately the potential for equity holders to see increased shareholder returns after CPG reaches its leverage target (<1x D/CF) by YE-2022E.
- Specifically, we estimate that CPG will generate ~\$730 million in FCF in 2022 (after sustaining capital), this equates to a FCF yield of 27% - significantly above its 2022E yield of ~3%.

Preliminary 2022 Guidance as Expected. 5-Year Plan Mirrors 2022: The company introduced a preliminarily 2022 capital budget of \$825-\$900 million, which is guided to generate 131-135 mBOE/d. 2022 production guidance is approximately flat from TD's H2/2021E. The newly introduced 5-year plan essentially repeats the 2022 capital spending level to maintain flat production through 2026

- **Our View:** 2022 guidance was as anticipated. Our prior estimate sat at the lower-end of the company's capital spending and production range. We have moved our 2022 spending assumption to the mid-point of guidance, which drives a modest upward revision to our production and CF forecasts (Exhibit 2).

TD Investment Conclusion

Crescent Point's 2022 guidance and 5-year plan articulates a strategy that maintains production and generates an immense amount of FCF under a flat US\$65/bbl WTI pricing scenario. We encourage investors to revisit CPG as we believe it offers a strong conventional oil-weighted asset base, material FCF, comfortable leverage, a sustainable base dividend (with room to grow) and a very low valuation.

Recommendation:	BUY
Risk:	HIGH
12-Month Target Price:	C\$9.00
12-Month Dividend (Est.):	C\$0.09
12-Month Total Return:	94.3%

Market Data (C\$)

Current Price	C\$4.68
52-Week Range	\$1.41 - \$5.87
Mkt Cap (f.d.) (\$mm)	\$2,723.6
Mkt Cap (basic) (\$mm)	\$2,723.6
Float Cap (\$mm)	\$2,355.0
Current Dividend	\$0.01
Dividend Yield	0.2%
Avg. Daily Trading Vol.	6,842,442

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	582.0
Shares O/S (basic) (mm)	582.0
Float Shares (mm)	503.2
Net Debt (\$mm)	\$2,309.2
Net Debt/Total Cap	30.6%
NAVPS	\$10.60

Estimates (C\$)

Year	2019A	2020A	2021E	2022E
CFPS (f.d)	3.28	1.61	2.36	2.75
CFPS (f.d) (old)	-	-	2.37	2.60
Oil & NGLs (mb/d)	147.0	110.4	113.6	113.3
Gas (MMcfd)	91.6	67.4	114.7	122.6
MBOE/d	162.2	121.6	132.8	133.8

CFPS (f.d) Quarterly Estimates (C\$)

Year	2019A	2020A	2021E	2022E
Q1	0.92	0.57	0.48	0.68
Q2	0.91	0.21	0.66	0.68
Q3	0.70	0.44	0.63	0.69
Q4	0.74	0.39	0.59	0.69

Valuations

Year	2019A	2020A	2021E	2022E
EV/DACF	3.0x	4.0x	3.4x	2.5x
P/NAV MG	-	44.4%	-	-

Supplemental Data

Year	2019A	2020A	2021E	2022E
WTI (US\$/bbl)	57.03	39.50	65.00	65.00
H. Hub (US\$/mcf)	2.56	2.00	3.20	3.00
AECO (C\$/mcf)	1.79	2.25	3.15	2.80
FX (US\$/C\$)	0.75	0.75	0.81	0.82

12-Month Dividend (Est.): Includes current dividend of \$0.0025/share in Q3/21 and the increased dividend of \$0.03/share for the subsequent three quarters.

All figures in C\$, unless otherwise specified



Company Profile

Crescent Point Energy Corp. is a conventional oil & gas company with assets strategically focused in properties comprising high-quality, long-life, operated, light oil and natural-gas reserves in western Canada (including Duvernay) and North Dakota.

Action Note

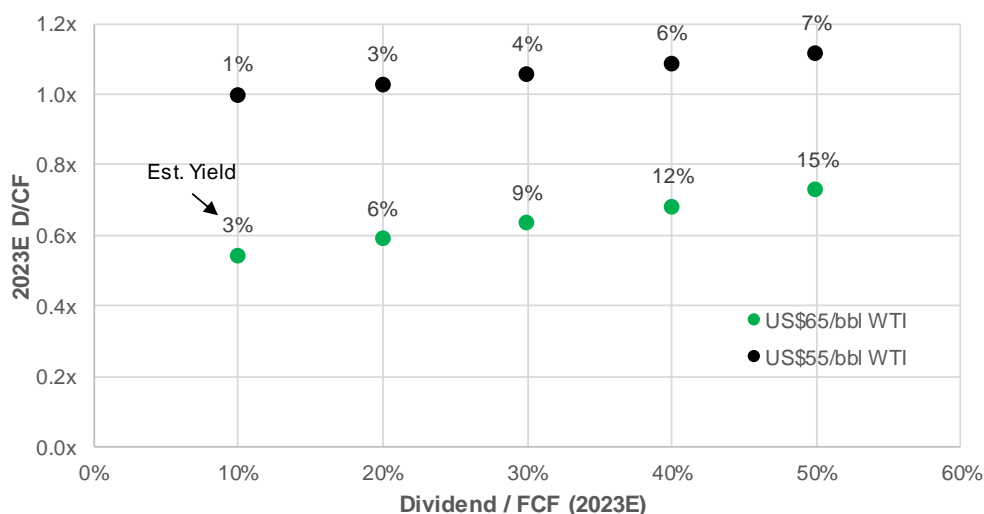
Equity Research

September 13, 2021

Although CPG's dividend policy isn't predicated on a portion of FCF, we felt it was instructive to highlight what the company's dividend yield and leverage metrics would look like under various payout and commodity price scenarios. Notably, the current dividend level consumes negligible amounts of FCF at US\$65/bbl WTI and only a small fraction of FCF at US\$55/bbl WTI.

What's more, under a US\$65/bbl pricing scenario, there is considerable flexibility to pay a higher dividend in 2023, while maintaining D/CF comfortably below the 1x target. While we acknowledge there are other potential options for this FCF (i.e., incremental debt repayment, strategic M&A, NCIB, growth...), in our view, this highlights the potential cash return if even a fraction of FCF is provided to shareholders going forward.

Exhibit 1. Dividend Payout Ratio and D/CF Sensitivities in 2023E



Source: Company reports, TD Securities Inc.

Exhibit 2. Updated Annual Estimates

Production	Guidance	2021E			Guidance	2022E		
		Revised	Previous	Variance		Revised	Previous	Variance
Oil and C5+ (bbl/d)		96,628	96,628	0.0%		96,420	93,943	2.6%
NGLs (bbl/d)		17,014	17,014	0.0%		16,915	16,777	0.8%
Natural Gas (mcf/d)		114,684	114,684	0.0%		122,575	121,571	0.8%
Corporate (BOE/d)	130-134	132,756	132,756	0.0%	131-135	133,765	130,982	2.1%
% Liquids	86%	86%	86%			85%	85%	
Financial								
Cash Flow (\$mm)		1,353.5	1,358.9	-0.4%		1,602.8	1,517.5	5.6%
DACF (\$mm)		1,450.8	1,456.0	-0.4%		1,682.2	1,595.2	5.5%
CFPS (fd)		2.36	2.37	-0.4%		2.75	2.60	5.5%
Capex (\$mm)	\$612.5*	637.5	637.5	0.0%	\$862.5*	882.5	835.0	5.7%
Net Debt (\$mm)		2,162.4	2,141.1	1.0%		1,547.0	1,499.4	3.2%
% Undrawn Credit		80%	81%			100%	100%	
Netbacks (\$/BOE)								
Gross Revenue		61.07	61.07	0.0%		58.98	57.56	2.5%
Hedging Gains (Losses)		(6.01)	(5.90)	1.8%		(0.33)	(0.42)	-20.6%
Royalties		(7.49)	(7.49)	0.0%		(7.08)	(6.62)	6.9%
Transportation Costs		(2.38)	(2.38)	0.0%		(2.35)	(2.35)	0.0%
Operating Costs	(13.00)	(12.91)	(12.91)	0.0%		(12.90)	(12.90)	0.0%
Operating Netback		32.29	32.40	-0.3%		36.32	35.27	3.0%
General & Administrative		(1.48)	(1.48)	0.0%		(1.56)	(1.59)	-2.1%
Interest Expense		(2.01)	(2.01)	0.2%		(1.63)	(1.62)	0.1%
Cash Taxes/Other		(0.87)	(0.87)	0.0%		(0.31)	(0.31)	-2.1%
Cash Netback		27.93	28.04	-0.4%		32.83	31.74	3.4%

*Excludes capitalized G&A, capital lease payments, ARO and land.

Source: Company reports, TD Securities Inc.

Action Note

Equity Research

September 13, 2021

Exhibit 3. NAV Summary

2P Reserves	Reserves	NPV (\$mm)	NPV/BOE	(\$/Share)
mmBOE	735.4	\$9,495	\$12.91	\$16.37
Net Undeveloped Land	000's Acres	\$/acre	Land Value (\$mm)	Land Value (per share)
WCSB Conventional	1,403	\$250	\$351	\$0.60
Total Other Assets			\$0	\$0.00
Hedging Gain/Loss			(\$291)	(\$0.50)
Liabilities (\$mm)			(\$mm)	(per share)
Net Debt (\$mm)			(\$2,892)	(\$4.99)
			(\$mm)	(per share)
NAV_{BD}			\$6,150	\$10.60
NAV_{MG}			\$6,150	\$10.60

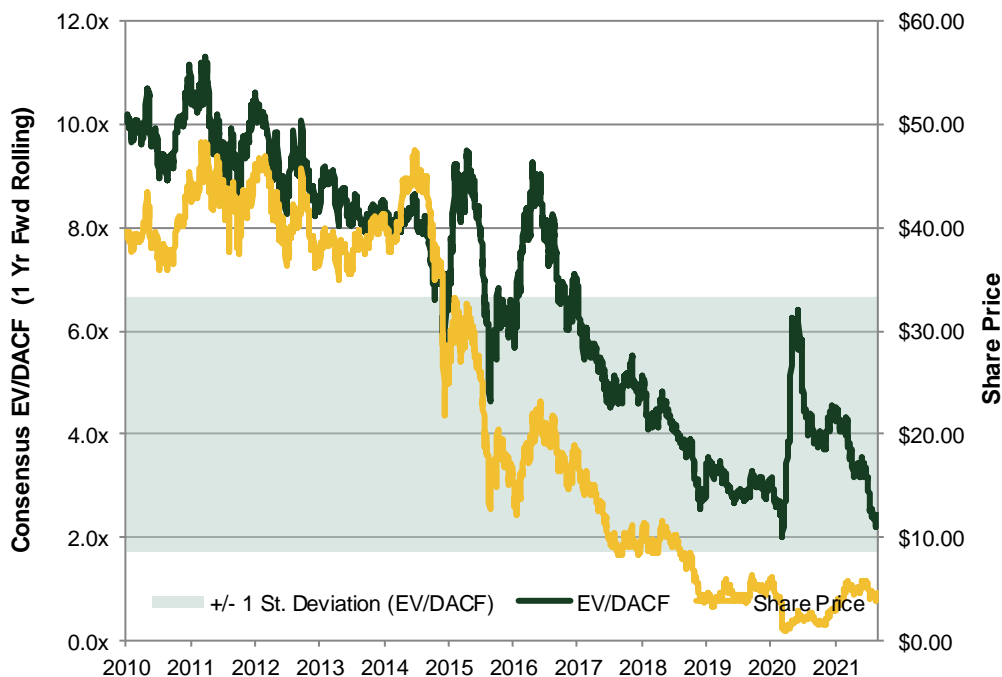
Net debt as at YE-2020 adjusted for acquisitions/dispositions.

Source: Company reports, TD Securities Inc.

Valuation

CPG is currently trading at a 2022E EV/DACF multiple of 2.5x, which is below its trailing 3-year average of 3.5x. This is slightly below the 2.8x average of its closest Canadian oil-weighted peers (WCP and ERF).

Exhibit 4. Crescent Point Historical EV/DACF (12m Forward Consensus)



Source: Bloomberg, TD Securities Inc.

Exhibit 5. Peer Group Comparison

	Yield	D/CF	% Drawn	PoR	BOE/d			EV/DACF	
	2022E	2022E	2022E	2022E	2022E	Gas	Gwth*	2021E	2022E
Canadian Peers									
KEL	0%	0.0x	0%	97%	29,380	63%	37%	5.4x	4.1x
CR	0%	1.5x	0%	43%	33,214	74%	20%	4.7x	2.8x
SDE	0%	1.0x	48%	69%	70,477	59%	22%	5.2x	2.6x
AAV	0%	0.4x	26%	60%	54,364	91%	9%	5.8x	4.9x
NVA	0%	1.1x	34%	81%	64,738	60%	27%	4.9x	3.1x
BTE	0%	1.7x	0%	53%	79,908	19%	0%	3.7x	3.4x
BIR	0%	0.9x	32%	49%	81,930	78%	2%	4.9x	4.2x
VET	0%	1.5x	38%	49%	84,914	46%	(0%)	4.8x	3.5x
PEY	1%	1.6x	52%	64%	103,940	87%	11%	4.8x	3.7x
WCP	3%	0.5x	0%	55%	122,000	27%	4%	4.6x	3.2x
ERF	2%	0.4x	0%	56%	125,591	39%	11%	3.5x	2.4x
CPG	3%	1.0x	0%	59%	133,765	15%	(1%)	3.4x	2.5x
ARX	3%	0.4x	0%	64%	347,495	60%	2%	4.2x	3.3x
TOU	2%	-0.1x	-93%	52%	497,534	77%	8%	4.6x	3.9x
Median	0%	0.9x	0%	57%	83,422	60%	9%	4.7x	3.4x
Permian Peers									
PDCE	1%	0.5x	0%	48%	199,067	40%	6%	3.8x	3.1x
FANG	2%	0.7x	0%	45%	383,995	20%	2%	5.2x	3.5x
PXD	9%	0.4x	0%	77%	706,956	19%	9%	6.9x	4.7x
OVV	2%	0.9x	0%	51%	538,515	48%	(2%)	3.7x	3.0x
EOG	2%	-0.4x	0%	58%	881,978	29%	7%	4.6x	3.7x
Median	2%	0.5x	0%	51%	538,515	29%	6%	4.6x	3.5x
Marcellus Peers									
RRC	0%	2.6x	0%	46%	374,748	70%	3%	6.9x	6.0x
AR	0%	1.3x	0%	47%	568,485	69%	1%	4.4x	4.4x
EQT	0%	1.7x	0%	53%	939,472	94%	(6%)	5.5x	4.1x
Median	0%	1.7x	0%	47%	568,485	70%	1%	5.5x	4.4x
Median	0%	0.9x	0%	54%	129,678	60%	5%	4.7x	3.5x

*Y/Y Growth Per Share

Source: Company reports, TD Securities Inc.

Justification of Target Price

Our target price combines 1.0x our modified growth NAV at a 50% weighting and an EV/DACF multiple of 3.5x 2022E DACF at a 50% weighting.

Key Risks to Target Price

Key risks associated with our target price include business risks of the company and industry, including loss of key employees; drilling success; volatile commodity prices; operating costs; capital cost overruns; product supply and demand; financing/access to capital; government regulations; legislation; royalties; taxes; exchange rates; interest rates; and environment and weather concerns.

In addition to industry risks, key near-term risks specific to Crescent Point include: 1) loss of key employees; 2) drilling success; 3) volatile commodity prices and operating costs; 4) capital cost overruns; 5) product supply and demand; 6) government regulations and taxes; 7) exchange rates; 8) interest rates; 9) environment and weather concerns; 10) unfavorable tax legislation; 11) successful execution of the transition plan and updated strategy; and 12) there is no guarantee that current bank credit facilities will be renewed at current levels or that undrawn credit capacity will be available to repay other creditors in the future.

Action Note

Equity Research

September 13, 2021

Exhibit 6. Summary

Company Overview				
Market Capitalization (\$mm)	\$2,724			
Net Debt (\$mm)	\$2,309			
Enterprise Value (\$mm)	\$5,033			
Current Price	\$4.68			
52 Week Low/High	\$1.41	\$5.87		
Current Yield	0.2%			

Production				
Crude Oil (bbl/d)	126,219	95,859	96,628	96,420
NGLs (bbl/d)	20,746	14,541	17,014	16,915
Total Liquids (bbl/d)	146,965	110,400	113,642	113,335
Natural Gas (mcf/d)	91,592	67,447	114,684	122,575
Total Production (BOE/d)	162,230	121,641	132,756	133,765
% Gas	9%	9%	14%	15%

Growth				
Y/Y Production Growth	(9%)	(25%)	9%	1%
Y/Y Production Per Share Growth	(8%)	(23%)	2%	(2%)
Y/Y DAPPS Growth	(12%)	(38%)	49%	13%

Pricing Assumptions				
WTI (US\$/bbl)	\$57.03	\$39.50	\$65.00	\$65.00
Edmonton Par (C\$/bbl)	\$69.06	\$46.25	\$75.00	\$75.50
WCS (C\$/bbl)	\$58.12	\$36.00	\$64.50	\$63.25
Nymex (US\$/mcf)	\$2.56	\$2.00	\$3.20	\$3.00
AECO (C\$/mcf)	\$1.79	\$2.25	\$3.15	\$2.80
Exchange Rate (US\$/C\$)	\$0.75	\$0.75	\$0.81	\$0.82

Corporate Netback (\$/BOE)				
Revenue	\$56.84	\$38.02	\$61.07	\$58.98
Hedging	\$0.73	\$5.52	(\$6.01)	(\$0.33)
Royalties	(\$8.15)	(\$4.88)	(\$7.49)	(\$7.08)
Transportation	(\$2.09)	(\$2.27)	(\$2.38)	(\$2.35)
Operating	(\$12.29)	(\$12.62)	(\$12.91)	(\$12.90)
Operating Netback	\$35.04	\$23.78	\$32.29	\$36.32
G&A	(\$1.55)	(\$1.77)	(\$1.48)	(\$1.56)
Interest Expense	(\$2.48)	(\$2.12)	(\$2.01)	(\$1.63)
Cash Taxes and Other	(\$0.77)	(\$0.70)	(\$0.87)	(\$0.31)
Cash Flow Netback	\$30.24	\$19.19	\$27.93	\$32.83

Per Share Metrics				
WA Outstanding Shares (diluted)	545.7	531.7	572.6	583.6
CFPS (diluted)	\$3.28	\$1.61	\$2.36	\$2.75
EPS (diluted)	(\$1.89)	(\$4.74)	\$4.27	\$1.17
2P NAV		\$10.60		
Modified Growth NAV		\$10.60		

Key Valuation Ratios				
P/CF (x)	1.4x	2.8x	2.0x	1.7x
EV/DACF (x)	3.0x	4.0x	3.4x	2.5x
EV/Production (\$000/BOE/d)	\$36.3	\$31.2	\$36.8	\$32.0
EV/1P Reserves (\$/BOE)	\$12.57	\$8.10	\$10.44	\$9.13
EV/2P Reserves (\$/BOE)	\$7.96	\$5.13	\$6.61	\$5.78
P/NAV (2P)		44%		
P/NAV (Modified Growth)		44%		
ROCE	-	-	-	-

Leverage				
Bank Debt (\$mm)	\$806	\$388	\$598	\$0
Term Debt (\$mm)	\$1,833	\$1,660	\$1,470	\$1,470
Net Debt (\$mm)	\$2,828	\$2,222	\$2,162	\$1,547
Net Debt-CF (x)	1.6x	2.6x	1.6x	1.0x
Credit Facility (\$mm)	\$3,000	\$3,000	\$3,000	\$3,000
% Drawn	27%	13%	20%	0%
Dividend PoR (%) (Pre-DRIP)	1%	1%	2%	4%
Dividend PoR (%) (Post-DRIP)	1%	1%	2%	4%
Corporate PoR (%) (Pre-DRIP)	72%	78%	49%	59%
Corporate PoR (%) (Post-DRIP)	72%	78%	49%	59%

Cash Flow Summary (\$mm)				
Funds Flow from Operations	\$1,790	\$854	\$1,353	\$1,603
Debt-Adjusted Cash Flow	\$1,937	\$949	\$1,451	\$1,682
Investing Activities				
Exploration and Development	(\$1,271)	(\$660)	(\$638)	(\$883)
Acquisitions/Divestitures	\$924	\$508	(\$841)	\$0
Total Capital Expenditures	(\$346)	(\$153)	(\$1,479)	(\$883)
Financing Activities				
Change in Net Debt	(\$1,291)	(\$606)	(\$59)	(\$615)
Dividends	(\$22)	(\$9)	(\$22)	(\$70)
DRIP	\$0	\$0	\$0	\$0
Other / Share Issue Proceeds	(\$43)	(\$24)	\$48	\$17
EBITDA	\$1,926	\$922	\$1,440	\$1,677

CFPS (diluted)				
Q1	\$0.92	\$0.57	\$0.48	\$0.68
Q2	\$0.91	\$0.21	\$0.66	\$0.68
Q3	\$0.70	\$0.44	\$0.63	\$0.69
Q4	\$0.74	\$0.39	\$0.59	\$0.69
Annual	\$3.28	\$1.61	\$2.36	\$2.75

Quarterly Production (BOE/d)				
Q1	175,955	141,330	119,384	132,924
Q2	172,476	120,842	148,641	131,452
Q3	155,708	113,383	133,274	134,842
Q4	145,191	111,217	129,608	135,796
Annual	162,230	121,641	132,756	133,765

Source: Company reports, TD Securities Inc. estimates



Action Note

Equity Research

September 13, 2021

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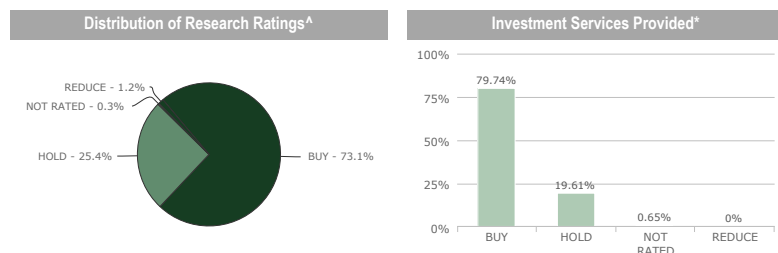
Company	Ticker	Disclosures
Crescent Point Energy Corp.	CPG-T	9

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Current as of: September 13, 2021

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Action Note

Equity Research

September 13, 2021

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Action Note

Equity Research

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