2 Reasons to Avoid Crescent Point Energy Corp, and 1 Stock to Buy Instead

Description

If you're looking for monstrous dividend yields, then Canada's energy patch certainly has some tempting companies. One of them is **Crescent Point Energy** (TSX: CPG)(NYSE: CPG), whose 6.4% yield ranks it among the top five in the **S&P/TSX 60**.

But there are reasons to avoid Crescent Point, and below we take a look at two of them. Then we look at a stock you should consider buying instead.

Reasons to avoid Crescent Point

1. An acquisition-first strategy

If you're a dividend investor, you should be looking for companies with reliable cash flows you can count on. Growth should be a secondary concern.

But Crescent Point's main priority appears to be growth, and this comes mainly from acquisitions. Let's look at the most recent example: its $378 million deal for assets from **Lightstream Resources** earlier this week. At the same time, the company announced increased capital plans. To pay for all of this, Crescent Point is selling up to 19.9 million new shares.

The shares were sold at nearly a 3% discount to the company's closing price that day, costing the company up to $23 million. And Crescent Point will need to allocate up to $55 million per year for dividends on these new shares.

So as you can seen, acquisitions are expensive, especially if they don't work out as planned. By now it should be easy to see why Crescent Point hasn't raised its dividend since 2008, even though its production is up roughly 250% since then.

2. An oversized dividend

Secondly, Crescent Point's dividend of $0.23 per month is far beyond what the company makes in income or free cash flow. So how does Crescent Point afford this? You guessed it: by issuing even more shares.

In fact Crescent Point offers a 5% discount to any shareholder willing to take his/her dividend in shares rather than cash. When combined with the company's acquisition-based strategy, the result is a skyrocketing share count. From 2011 to 2013, the average shares outstanding increased by about 40%. These are not the kind of complications you should have to deal with if you're a dividend investor.

1 stock to buy instead: Canadian Oil Sands Ltd

Canadian Oil Sands Ltd (TSX: COS) has a far different strategy than Crescent Point. Instead of growing like crazy through acquisitions, the company is happy to produce cash flow from its Syncrude project. In fact from 2009 to 2013, production has fallen by 5%.

Admittedly, operational hiccups at Syncrude have been partly responsible. But these hiccups have also kept its share price nice and cheap, down by 14% over the past five years. As a result, its dividend yield is a juicy 6.1%.

Best of all, Canadian Oil Sands pays a dividend it can actually afford. For example last year, dividends totaled 81% of net income (compared to 746% at Crescent Point). And guess what? Canadian Oil Sand's share count has stayed virtually flat, at around 485 million, for years.

So if you're looking for good solid dividend payers, then Canadian Oil Sands is a great option. And you're better off leaving Crescent Point alone.

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