4 Reasons Income Investors Should Buy Crescent Point Energy Corp. Right Now

Description

In this current environment of low interest rates, income investors are looking for reliable stocks with a history of paying consistent dividends.

Crescent Point Energy Corp. (TSX: CPG)(NYSE: CPG) fits the criteria perfectly and its generous dividend could be going higher.

Here are four reasons why I think dividend income investors should consider adding Crescent Point Energy Corp. to their portfolio.

1. Asset growth

Crescent Point Energy has been on an acquisition blitz in the past year, spending nearly $2 billion on new assets.

Here's a look at three of the acquisitions:

On September 2, Crescent Point announced a $378 million deal to buy producing conventional oil assets in Manitoba and Saskatchewan from **Lightstream Resources Ltd.** The assets currently produce 3,300 barrels of oil per day and the deal includes 76 net sections of land located beside the existing wells. Crescent Point is using cash to pay for most of the deal.

The deal should add $51 million to free cash flow in the next 12 months.

In June, Crescent Point acquired the Saskatchewan Viking oil assets from Polar Star Canadian Oil and Gas Inc. for $331.7 million. The deal includes more than 2,800 barrels per day of high-netback production.

In May, Crescent Point paid $1.1 billion for CanEra Energy Corp. to boost its portfolio of premium assets in Saskatchewan's Torquay region. Crescent Point paid 12.9 million shares, $192 million in cash, and took on $348 million in debt to pay for CanEra.

Crescent Point's Torquay exposure now tops 960 net sections of land.

2. Organic production growth

Crescent Point Energy also has a robust capital program and is very successful at locating new reserves on its world-class land holdings, including its Torquay resource play in Saskatchewan and its Uinta Basin play in Utah.

Capital expenditures for 2014 across the entire asset base stand at $2 billion. “Accelerating capital allows us to increase the momentum we’ve generated so far in the Torquay play and in the Uinta Basin,” Crescent Point CEO Scott Scott Saxberg said in the recent update.

3. Proven business model

The investment community often comments that Crescent Point should be paying for acquisitions using free cash flow instead of equity and debt. The business model has been under scrutiny for years, yet Crescent Point’s management team continues to deliver results and has little trouble raising funds.

With the $2 billion in capital programs and the aggressive acquisitions completed this year, Saxberg expects to see a 16% increase in cash flow on a per-share basis in 2014.

The company’s balance sheet remains strong. Projected average net debt to 12-month cash flow sits around 1.1 times. Crescent Point also uses an aggressive hedging plan to ensure stable cash flow during volatile movements in the oil market.

4. Reliable dividend payments

Crescent Point has never cut its dividend. The company pays a monthly dividend of $0.23 per share, or $2.76 on an annualized basis. The distribution yields about 6.5%.

One complaint analysts have against Crescent Point is that the company’s dividend payout ratio is greater than 100%. The wisdom of Crescent Point’s strategy is certainly debatable. The company has done a good job in the past year of driving down the payout ratio while maintaining one of Canada’s best dividends.

In the Q2 2014 earnings report, Saxberg said, “With our 2014 cash flow estimated to be greater than six dollars per share and our payout ratio the lowest it’s been in company history, we’re well on track to delivering another excellent year to our shareholders.”

Saxberg told Bloomberg on September 9 that drilling success in Saskatchewan and the recent acquisitions have set the company up for a potential dividend increase next near.

The bottom line

Crescent Point Energy continues to grow production and free cash flow that investors can count on for reliable dividends. I think the recent weakness in the stock is a great opportunity for income investors to take a position.

If U.S. investors start to take notice, the stock could see a sharp breakout to the upside.

CATEGORY

1. Dividend Stocks
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