

## Crescent Point Energy Corp Faces Intense Competition as it Seeks to Win Over Dividend Investors

### Description

**Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG) has been busy this year as it went on a big buying binge in hopes of exciting its investor base in Canada. In fact, it has quietly become Canada's most acquisitive energy company according to a report by Bloomberg.

Unfortunately, this hasn't had its desired effect as its stock price has barely budged. Now the company is looking to take a generous dividend to entice investors in the U.S. to buy its stock. But, that move might not work either as it faces stiff competition for income seeking investors from MLPs like **LINN Energy LLC** (NASDAQ: LINE) and **BreitBurn Energy Partners L.P.** (NASDAQ: BBEP).

### Handing out the cash

Crescent Point Energy certainly does have a tempting dividend as it currently yields 6.5%. That's more than double top U.S. exploration and production companies like **ConocoPhillips** ([NYSE: COP](#)) and **Occidental Petroleum Corporation** ([NYSE: OXY](#)), which yield 3.7% and 2.9% respectively. Moreover, it's even further above other exploration focused companies that yield closer to 1%. This is why Crescent Point Energy CEO Scott Saxberg pointed out in the Bloomberg article that his company is "unique to U.S. investors because they don't see companies hand out a dividend."

Further, due to all of its acquisitions as well as a recent discovery, the company's [dividend should be heading higher in the future](#). That puts it in a good position to stay ahead of high-yielding American peers like ConocoPhillips, as its current growth plan would see cash flow growing by 6%-10% annually. So, even if it boosted its payout by that rate, it wouldn't come close to Crescent Point Energy's current yield.

Likewise, Occidental Petroleum's dividend won't be heading all that much higher in the years ahead as it's working to spin off its oil-rich and cash flow-gushing California assets and instead focus on growing production out of the Permian Basin. So, Crescent Point Energy certainly has a leg up on these competitors, but the problem is that all else being equal, it has a bigger hurdle to overcome as it attempts to draw in American income investors.

### Here's the problem

Crescent Point Energy has experienced a steady decline in its American investor base. According to Bloomberg, U.S. investors hold less than a quarter of the stock, down from 43% two years ago. However, as it seeks to reverse this trend, it needs to overcome two powerful forces: taxes and currency.

These are powerful forces that actually become a competitive disadvantage for Crescent Point Energy when investors compare it to American MLPs like LINN Energy and BreitBurn Energy Partners. At first glance there would appear to be many similarities between these three companies. All three offer very

generous monthly income streams to investors though LINN Energy and BreitBurn Energy Partners offer even higher current yields of 9.4% and 9.2% respectively. However, these already higher yields are even better when we factor in taxes and currency.

MLPs are pass-through entities so neither is subject to the double taxation of a C-Corp. Further, the distributions from most MLPs are typically tax-deferred, with taxes being paid when the units are sold. Not so with shares of Crescent Point Energy as it pays eligible dividends for Canadian tax purposes that investors need to manage.

The other big issue it will need to overcome is the fact that its dividend is paid in Canadian dollars. So, while the company has paid a \$0.23 dividend each month this year, U.S. investors have received a variable amount dependent on the exchange rate between the U.S. and Canadian dollar. As such, U.S. investors have received dividend payments ranging from US\$0.2056 to US\$0.2143 per share in 2014. Sure, a penny here or there might not seem like a lot, but it's equal to a 4% difference in the payout. So, over a few hundred shares, we're talking about a lot of money. Further, given that U.S. income investors loathe a falling payout, a big drop in the exchange rate could send U.S. investors running.

### **Investor takeaway**

Crescent Point Energy needs to be careful as it attempts to win over U.S. income-seeking investors. It simply cannot compete against MLPs like LINN Energy and BreitBurn Energy Partners when it comes to taxes and a steady payout. Because of this it needs to offer investors more than just a current high yield as there clearly are better alternatives for American investors.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:COP (ConocoPhillips)
2. NYSE:OXY (Occidental Petroleum Corporation)
3. NYSE:VRN (Veren)
4. TSX:VRN (Veren Inc.)

### **Category**

1. Dividend Stocks
2. Investing

### **Date**

2025/07/03

### **Date Created**

2014/09/15

### **Author**

mdilallo

default watermark