Don’t Take the Dividend Bait, Part 2: Avoid Crescent Point Energy Corp. and Penn West Petroleum Ltd.

Description

Yesterday, we highlighted three stocks with big dividends that you should stay away from.

And here in part 2, we highlight two more: **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG) and **Penn West Petroleum Ltd.** (TSX: PWT)(NYSE: PWE).

Stay away from this 7% yield

Crescent Point’s 7% dividend ranks it second in the **S&P/TSX 60**, and for that reason, it’s a very popular stock to hold. But this dividend isn’t as good as it seems.

Here’s the problem: The company’s dividend equals $2.54 per share per year. But last year, earnings per share totaled only $0.37. Free cash flow per share totaled $0.55. So how did Crescent Point manage to pay this dividend?

Quite simply, Crescent Point encourages its shareholders to take their dividends in stock rather than cash. As a result of this strategy, it only had to pay $422 million in dividends last year. Otherwise, cash dividends would have totaled roughly $1 billion.

But this comes with a problem: The share count keeps rising. In fact, the average share count jumped by over 140% from 2009 to 2013. Granted, acquisitions played a role in this dilution, too. But with the share count increasing so quickly, the company must devote more and more cash toward its dividend.

As a result, the dividend hasn’t been raised since 2008, and with falling oil prices, the dividend won’t be raised anytime soon, either. These are not issues you should have to deal with as a dividend investor. You should just stay away.

It’s better to watch a soap opera than be in one

It sure hasn’t been fun to hold Penn West shares over the past three years. Over this time, the company has suffered from the consequences of expanding too rapidly. Production has shrunk every year since 2008. Assets have been sold too quickly. And most recently, it uncovered $400 million worth of accounting errors. Meanwhile, the stock has fallen by 55%.

That being said, some people still may be tempted by the 8.0% dividend yield, the highest in the TSX 60. But this dividend is truly unaffordable, and cannot be paid solely from cash flows. In previous years, the dividend has been funded mainly by asset sales. The same could be said for the first half of this year; the company has raised over $200 million from asset sales so far in 2014.

But that results in declining production (total production declined by 24% year over year in the most recent quarter), making the dividend all the more unaffordable. So a dividend cut is likely coming sooner or later.

It’s true that Penn West could turn around, and that would likely result in spectacular gains for the stock. But this is a very speculative investment. And is that really the kind of bet you want to make in a dividend portfolio? You should stick to more reliable dividend stocks — three are profiled in the free report below.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/10
Date Created
2014/10/03
Author
bensinclair