Is Crescent Point Energy Corp.'s Dividend Safe?

Description

Weakening oil prices continue to put pressure on the sector, and analysts expect this to continue until OPEC makes some moves to reduce supply.

Current conditions are proving to be a good buying opportunity for investors in the oil sector, with **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG) on many radars. But a key concern on investors' minds is whether dividends will be safe in the long run (three to five years) given battered oil prices? And what would cause management to cut its dividend?

To answer those two questions, here are a few points:

Commitment to dividend

The company currently pays about a 6.3% yield, the second-highest dividend rate on the S&P/TSX 60 Index. If there's any company on the index that knows how to weather an oil storm without it affecting dividends, it is Crescent Point. When oil was under pressure in the past, the company kept its returns intact.

Crescent Point's commitment to providing dividends to its shareholders is a crucial part of its business model. Management also has a solid cash flow protection plan in place.

Risky payout ratio?

Many analysts critique the company on its payout ratio, i.e., the proportion of earnings paid out as dividends to shareholders (typically expressed as a percentage). This is because that percentage is way above the 100% mark, which many analysts think is ridiculous and unsafe. However, while that may have been a fair concern in the past, things are changing for Crescent Point and its management has acknowledged it. The company is getting closer to paying dividends using free cash flow. It has said its dividend payout ratio will fall to 105% from 140%, making the current dividend safe.

Serial issuers

Another worry for critics is that Crescent Point is a serial capital issuer. The company is constantly raising capital, causing shareholders to wonder whether — and by how much — their share in the company will get diluted. Again, I think this is not something to worry about since, although the company does constantly issue shares, it also grows in production at the same time.

Foolish takeaway

As Crescent Point's current share price sits below $40, I think it's a great opportunity to buy into such a quality, reliable company. As a percentage of cash flow, it is well covered. Will it raise its dividend rate? Maybe not. Will it cut it? I highly doubt it. Is the dividend safe? I think yes, of course, unless oil does something outrageously crazy — like fall to $70 or below.

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