Is Crescent Point Energy Corp.’s Monster Yield Truly under Threat?

Description

The recent lows hit by crude has drawn the usual chorus of claims **Crescent Point Energy Corp.’s** (TSX: CPG) (NYSE: CPG) monster dividend yield is under threat. The same reasons as usual are being put forward – there is insufficient cash to meet dividend payments because its dividend payout ratio is in excess of 100% and the company is using its DRIP to meet the shortfall and diluting existing investors.

However, while lower crude prices will impact Crescent Point’s earnings I believe these claims are over-blown and there is no threat to its healthy 7.6% yield.

Let me explain why.

Accretive acquisitions have significantly boosted its asset base and cash flow

The secret to Crescent Point’s success has been its ability to build a solid portfolio of quality oil assets through a series of accretive acquisitions. These acquisitions have seen production grow along with earnings and cash flow.

By the end of the third quarter 2014, cash flow shot up 7% compared to the equivalent quarter in the previous year. While for the same period, net income spiked a massive 194%.

More importantly, while Crescent Point’s debt over that period grew 49% year-over-year, it still has a low degree of leverage. Net-debt is less than 1.4 times cash flow and when coupled with a debt-to-equity ratio of 0.25, Crescent Point is well positioned to increase debt as required either to support expenditures or fund further acquisitions.

Impressive portfolio of high quality oil assets

An impressive aspect of Crescent Point's business is its portfolio of high quality oil assets, comprisedof oil reserves of over 640 million barrels. These assets have low decline rates and are weighted tohigher value oil and other crude liquids, which made up 91% of Crescent Point's third quarterproduction.

The quality of these assets is reflected in the high operating margin or netback per barrel of crude produced. For the third quarter Crescent Point's netback was $51.25 per barrel, giving it plenty of fat to absorb lower crude prices before its cash flow is threatened.

This netback is also among the highest in the patch. For the same period it was higher than **Lightstream Resources Ltd.'s** (TSX: LTS) $48.67, **Canadian Oil Sands Ltd.'s** (TSX: COS) $47.16 and **Baytex Energy Corp.'s** (TSX: BTE) (NYSE: BTE) $36.55 per barrel.

Furthermore, only around 40% of Crescent Point's oil reserves are developed and producing, leaving plenty of room for further production growth solely through the development of existing assets. This would remove the need for further acquisitions and allow Crescent Point to preserve capital should oil prices fall further. With a significant portion of past capital expenditures being used to fund acquisitions, this would free up considerable capital which could be directed to other expenditures including the dividend.

Finally, dividends declared only represent 52% of Crescent Point's operating cash flow, highlighting the dividend is indeed sustainable, even if oil prices fall further.

How significant is the dilutive effect of the DRIP?

The stability of Crescent Point's dividend is further enhanced by its dividend reinvestment plan, which now sees around 30% of all dividends paid in shares. This reduces the payout ratio as proportion of cash flow, but does raise the issue of dilution.

Between the end of the third quarter 2014 and the equivalent period in 2013, Crescent Point's share count grew by 9%, although not all of this figure is attributable to the DRIP. It is something of a serial issuer of shares when it comes to acquisitions. Crescent Point issued over 17 million shares as a means of funding its last 2 acquisitions, so only 4% of the total increase in its float can be attributed to the DRIP.

This does not have a serious dilutive impact on shareholders. While those shares issued to fund acquisitions have little to no dilutive impact because they boost the value of Crescent Point's asset, earnings, cash and net income.

There are no clear signs of Crescent Point's dividend being under threat and the dilutive impact of the DRIP is minimal at worst, making it an attractive high yielding dividend stock for income hungry investors.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VRN (Veren)
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