



Crescent Point Energy Corp: Why I'm Staying Away From This 7.8% Yield

Description

When it comes to **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG), I'm conflicted.

On the one hand, it's obvious the company is doing a few things right. From an operations perspective, it continues to deliver stellar results. Its netback is one of the most profitable in the entire Canadian energy patch, coming in at \$52.87 per barrel so far in 2014. In today's world of high-cost oil, those kinds of margins make a pretty compelling case to own the company.

Additionally, because of its huge acquisition activity over the years, Crescent Point is sitting in a somewhat unique position. Approximately 60% of its total land holdings are just sitting there, waiting to be developed. Management is willing to jump on good property, even if there's no plan to develop it immediately.

The company has also been a great dividend payer. Since 2008, it has paid investors a dividend of \$0.23 per share per month, good enough for a current yield of 7.8%. Shareholders commonly opt for the dividend reinvestment plan, which allows them to get paid in the form of additional shares at a 5% discount to the market price. By doing that, investors are effectively getting an 8.2% yield. You can see why it's a popular choice.

Now that the stock has fallen some 25% since its July highs, I thought I might take a closer look.

Questioning the dividend

Like I mentioned earlier, I think the company is a stellar operator. Management has a proven record of acquiring good assets, giving me confidence solid profitability will continue in the future. It certainly seems to be a well managed operation.

But when it comes to the dividend, my confidence in the company takes a huge nosedive.

Here are the numbers. For the nine months up to September 30, the company made \$1.8 billion incash flow from operations. That works out to \$4.37 per share. That's plenty of room to pay thecompany's \$3.24 annual dividend, and we're only nine months through the year.

But we haven't added on capital expenditures, which totaled \$1.45 billion so far in 2014. Thus, the company only has \$350 million available to pay dividends, which works out to \$0.78 per share. Based on the year so far, we can predict Crescent Point will have a maximum of about \$1.00 per share in free cash flow. Remember, oil prices have fallen significantly lately, which will likely hurt results.

This has been an ongoing problem at Crescent Point for years now, which is one of the reasons why its dividend reinvestment plan is among the most generous in the business. It wants to encourage investors to take their dividends in the form of shares. So far in 2014, the company has paid out \$613 million in cash dividends, while issuing new shares worth approximately \$250 million.

Just using shares to help pay for dividends wouldn't be so bad, at least from my perspective. But the company is a serial issuer of shares, using them to pay for at least a portion of most of its acquisitions.

At the end of 2011, it had just 278 million shares outstanding. As of the end of the third quarter, that number has jumped all the way up to 443 million. That's a 59% increase in just under three years.

Of course, it's not like those shares were issued willy-nilly — they were exchanged for assets. Issuing shares works as long as the market has confidence in them. I'm not saying it's going to happen, but in a world of prolonged weak energy prices I can see a scenario where the market loses confidence in getting Crescent Point shares. A bull market forgives a lot of sins.

The company has another option too, and that's cutting capital expenditures. That would free up cash available to pay dividends, but would come at a price of future growth. Plus, weak energy prices will also play a role going forward.

Because of all this, I'm avoiding Crescent Point going forward. If you're looking for a consistent dividend, I'd look somewhere else, like these top stocks we've chosen just for income investors. Check out the report below.

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Author

nelsonpsmith

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