Why Now Is the Time to Abandon Crescent Point Energy Corp. and its 11% Dividend

Description

As energy stocks continue to slide, the spotlight is shining on those that pay big dividends. Specifically, investors are wondering if these dividends will be cut. Some already have, such as **Canadian Oil Sands Ltd.**, which slashed its payout by 42%.

That brings us to **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG) and its massive dividend, currently yielding 11%. So will the company cut its payout?

How does the dividend work?

Crescent Point's dividend certainly makes the stock very popular, but there are some peculiarities worth understanding first.

First of all, the company does not make enough money to cover its payout. To illustrate, its free cash flow has totaled just over $1.10 over the past 12 months. Meanwhile, its dividend totals $2.76 per share per year. So how does Crescent Point make up this difference?

Well, the company offers shareholders a 5% incentive to receive their dividend in shares rather than cash. Roughly 30% of shareholders take advantage of this offer.

Unfortunately, this program has some nasty side effects. For one, the share count can grow very quickly. As of September 30, the share count had increased by nearly 10%. And that was when the stock price was very high. Now that the share price is depressed, the company will have to issue even more shares to cover its payout.

Unlikely to be cut

By now one thing should be obvious: Crescent Point will do whatever it can to preserve its dividend. Most of its shareholders hold the stock mainly for the payout (why else would they take cash over discounted shares?), so a dividend cut would probably result in a tanking stock price.

And if the stock price tanks, Crescent Point would need to issue even more shares to satisfy their dividend obligations. So this could lead to a downward spiral.

Luckily, the company has hedged much of its production. Roughly 60% of its 2014 output and 37% of its 2015 production is hedged at more than $93 per barrel. So cash flow should be able to support the dividend further.

Why you should still sell the shares

As we all know, dividend investors don’t like to take lots of risks. Nor should they. Dividend investing is all about sitting back, raking in regular income, and not worrying about stock market fluctuations.

But investing in a company like Crescent Point is very different. It’s really a bet on oil prices, something very difficult to predict. And if this bet goes wrong, then the shares could get crushed, even if the dividend doesn’t get cut for a while. Your best bet is to avoid this possibility altogether.

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Date
2025/09/10
Date Created
2014/12/09
Author
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