



Is Crescent Point Energy Corp.'s Dividend in Danger?

Description

Crescent Point Energy Corp. (TSX: CPG)(NYSE: CPG) is following its peers to multi-year lows as oil prices continue their brutal slide.

Canadian Oil Sands Ltd. and **Baytex Energy Corp.** have already pulled the trigger on their lofty payouts and investors are wondering how long it will be before Crescent Point joins the dividend cut club.

Let's take a look at the situation and see if a cut is coming, or if Crescent Point will buck the trend and hold firm.

Dividend history

During the financial crisis, oil prices dropped below \$40 per barrel, but Crescent Point maintained its payout. This is important to consider right now because the company's entire business model is built around the confidence investors have in management that Crescent Point will always pay a generous distribution. It's important to keep in mind that the situation is very different now than during the Great Recession.

The last plunge in crude prices was short-lived and oil companies expected as much. This time, the situation is much more complicated as OPEC, Russia, and North America face off in a battle to maintain market share amid slowing demand and growing supply.

Given the current environment, it might actually be better for the stock if Crescent Point cuts the dividend a little bit, and then guarantees the payout moving forward. Here's why I think that would be a good idea.

Production growth

Crescent Point has offset weak oil prices with strong production growth. On November 7, CEO Scott Saxberg told analysts that he expects 2015 capital expenditures to be slightly lower than 2014. The capital program will probably get trimmed a bit more, but the important point for investors is that the

company, for the moment, plans to stay the course.

Acquisitions

Saxberg recently said he sees the current carnage in the market as a great opportunity to pick up excellent assets at very distressed prices. If Crescent Point decides to continue its industry-leading buying spree, it might reduce the dividend and allocate the free cash flow toward acquisitions.

This would be a prudent decision given the current situation in the capital markets. Crescent Point has traditionally issued stock and tapped the debt market to finance its growth. Going that route would still be part of the mix, but the company could use funds from operations to finance a larger part of the capital program.

In order to put a floor under the stock price and even recover some ground, the company has to end the speculation about the dividend. A small cut with a commitment to maintain the new payout would probably be seen as a positive and the company could then raise capital as the stock stabilizes.

Strong margins

In the third quarter, the company's average netback was \$54.24 per boe. Favourable hedging and the use of rail transport to reach higher-priced markets were part of the reason, but Crescent Point also operates a very tight ship with respect to capital allocation. Investors should keep in mind that this is one of the best-run companies in the industry and will likely benefit in the long run from the current difficulties.

Should you buy?

It is reasonable to expect the company will trim the payout, and this should be seen as a positive development for long-term investors. If you believe oil prices will finally stabilize near \$70 in 2015, then Crescent Point is probably a good buy at current levels. Having said that, you need to have some serious resolve to pull the trigger right now.

Crescent Point isn't the only company that could rise significantly once the dust settles in the energy space. The following two stocks are also worth keeping an eye on.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VRN (Veren)
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aswalker

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