Yikes! Crescent Point Energy Corp.'s Yield Is 12.63%. Can it Last?

Description

Investors of **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG) are on edge. As oil prices continue their fall, companies large and small are cutting their budgets and dividends to keep up with the volatile market environment.

Cenovus Energy Inc., **Canadian Oil Sands Ltd.**, and **Baytex Energy Corp.** already slashed their payouts and now, investors of Crescent Point are nervous.

The company pays a whopping 12.63% yield and that's the primary reason for investors' jitters. Of course, no one knows how low oil prices will go and which company is next to pull the trigger. But a good way to gauge who may be next is by looking at companies with the highest yields.

Once yields go above the 10% mark, there's often pressure to cut its dividend. This is not only because of oil prices. Even though a company may be fundamentally strong enough to sustain its 10%-plus dividend, the market may not pay it for its high yield right now – so the company might as well make cut the dividend. The current environment seems to suggest that we are only at the beginning of this dividend cut parade.

Crescent Point seems well protected right now but since its yield is over 12%, speculation is mounting about the dividend. However, the company has been a market darling for years. It is still one of the biggest growth names in the Canadian shale oil space compared to oil sands, and has a terrific track record.

And because of this, there is a fairly strong chance that the company may not actually make the cut after all.

Over the weekend, I was talking to two market experts at a Christmas party, and there were two things that I took away:

1. One person told me that a key catalyst is not only the depth of the fall in oil prices but also the duration of the decline. If oil goes down to about $50 and bounces back in three to five months, Crescent Point might not cut its dividend.

2. Investors should wait out the current volatility and not buy into the sector just yet. Wait until the New Year for things to stabilize and for oil to start moving a little bit higher, and then, buy on that rise.

With oil prices the way they are, my advice is in line with the second point. Wait it out. Once that bottom has been reached, a lot of nervousness will be gone and it will give investors peace of mind to get back into the sector – even if it means missing about 5% of the discounts.

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