Are Low Crude Prices Really Threatening Crescent Point Energy Corp.'s Dividend?

Description

The carnage in the energy patch continues unabated with the price of West Texas Intermediate or WTI down by 42% over the last year to be at its lowest price in over five years. This has claimed the scalps of a number of dividends in the patch as they soared well into double digits and became unsustainable in the current operating environment.

One dividend now attracting considerable attention from investors is that of **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG). It has now hit a monster yield of 10%, leaving many to speculate whether it truly is sustainable with crude prices at their lowest point in more than five years.

Let's take a closer look at whether Crescent Point's dividend is sustainable in the current operating environment.

Dividend has remained unchanged for six years

Crescent Point has been paying the same monthly dividend of $0.23 since June 2008 and it has remained unchanged even when WTI prices plunged below $40 per barrel to touch a low of $37 per barrel in February 2009. Crescent Point was also able to sustain its dividend payment despite WTI prices remaining on average under $80 per barrel for the remainder of 2009.

This indicates the resilience of Crescent Point's operating model to the vagaries of the price of crude and that historically it has had the capacity to weather significantly depressed oil prices.

Oil prices can't remain at these prices for a sustained period

Despite the price of WTI falling to its lowest level since 2009, it is unlikely it will stay at such depressed levels for a prolonged period. This is because for many unconventional oil producers including oil sands and bitumen as well as U.S. shale, the current oil price is well below their breakeven price.

As a result a raft of oil companies have already slashed their 2015 capital budgets and a range of unconventional oil projects have been put on hold because of rising operating costs coupled with lower crude. This will help to address the current oversupply with global oil supplies gradually set to fall.

Demand for crude is also set to pick up, with significantly lower crude prices doing what the Fed's QE policy and other economic stimulus policies couldn't, significantly reducing the cost of a key input to economic activity, crude oil. As economic activity grows demand and consequently the price of crude will also appreciate.

The risk of lower oil prices forcing Crescent Point to cut its dividend are mitigated by it having hedged 37% of its forecast 2015 production at a weighted average price of greater than $93 per barrel, which is far higher than current WTI prices.

Operational and financial flexibility mitigates the risk of dividend cut

Another aspect of Crescent Point that helps to shield its dividend from being cut is its low level of leverage and high degree of liquidity coupled with a high quality asset base. Not only is its net debt a mere 1.2 times funds flow from operations, but the company remains highly liquid with unused borrowing capacity of $1.6 billion. This endows Crescent Point with considerable financial flexibility, allowing it to continue managing existing dividend commitments while continuing to fund capital expenditure.

It also possesses considerable operational flexibility with substantial high quality light and medium oil assets with over 640 million barrels of crude, of which only around 40% are developed and producing. This essentially reduces the need for Crescent Point to continue making acquisitions in order to grow production, with it capable of continuing to boost production organically. It can cease making acquisitions while continuing to grow oil production, reducing the financial pressure on the company, while oil prices remains low.

What does the future hold?

While it is difficult to guarantee that Crescent Point won't cut its dividend in the current operating environment, all the signs are that at this time it remains sustainable. Particularly, when its history of maintaining dividend payments despite WTI prices falling to far lower levels coupled with its hedging program reducing its exposure to softer crude prices are accounted for.

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