The Stock Picker's Guide to Crescent Point Energy Corp for 2015

Description

This year was not a good one for shareholders of **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG). Collapsing oil prices in the last six months sent the company's shares plummeting, and also fueled speculation of a dividend cut.

But now with the stock price so depressed, should you hold Crescent Point as we head into 2015? Below we take a look.

Is the dividend sustainable?

Let's face it. A huge number of Crescent Point's investors (if not most of them) own the company just for the dividend. But is the dividend sustainable?

Here, there is some good news. The company is under no immediate pressure to cut its dividend. According to one fund manager quoted by *The Globe and Mail*, the price of oil would have to stay at US$55 for about six months before the company would even consider a cut.

One reason is the company's hedging program. For the fourth quarter of 2014, 60% of production was locked in at prices higher than US$90 per barrel. And 37% is hedged for 2015.

Just as importantly, the dividend is sacrosanct at Crescent Point, and will only be cut as a last resort. So for now, you can continue collecting the payout.

So should you hold the stock?

There are some other things to like about Crescent Point. Importantly, it is very financially healthy, with less than $3 billion in net debt (less than a quarter of the company's market value). This is certainly a big advantage in today's oil price environment.

To illustrate, companies with higher debt loads are having to sell assets to stay afloat, often for bargain prices. A perfect example occurred in early September, when Crescent Point agreed to pay $378 million to **Lightstream Resources Ltd.** for some assets in Manitoba and Saskatchewan.

Better yet, Crescent Point's production has excellent economics. Its core areas have breakeven oil prices ranging from the high US$50s all the way down to the low US$40s. So the company should remain profitable even in today's environment. It seems to be a great way to bet on a recovery.

That said, there is one big thing to dislike about Crescent Point. Because its dividend is so high, it has to offer shareholders a 5% incentive to take their dividends in shares, rather than cash. As a result, the company's share count has increased by roughly 50% since 2011.

The right way to own Crescent Point

If you're looking to make a bet on energy, Crescent Point is certainly a good way to do so. If you do buy the stock, make sure you take your dividend in shares. The 5% discount is too good to pass up.

But if you're looking for some nice cash dividends, then you risk being diluted by holding Crescent Point shares, even if the payout is never cut. In fact, if you're looking for some regular income, you should probably avoid the energy sector altogether.

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