



3 Reasons Why Crescent Point Energy Corp's Dividend Is Safe... for Now

Description

On Wednesday morning, **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) announced a new capital spending plan for 2015. Importantly, the dividend remained unchanged – it still remains at \$2.76 per year, paid monthly.

In fact, Crescent Point's dividend seems safe for now (even though low oil prices have forced dividend cuts at other oil producers). Below are three reasons why.

1. An ability to grow flexibly

Crescent Point's capital budget is sure to please investors. Despite cutting spending by over 25% relative to 2014, the company is aiming for 9% production growth. Only once prices start to recover will the company ramp up investment spending again.

Included in the forecast is a 10% reduction in service costs, which Crescent Point thinks is conservative. The last time that oil prices tanked, service costs fell by up to 30%.

Better yet, Crescent Point has other "levers" it can pull if oil prices remain depressed. This includes further cuts to the capital budget in the second half of the year, while still maintaining production guidance.

Importantly, a dividend cut is not one of these levers. As put by CEO Scott Saxberg, "During times of oil price volatility, our strategy is to improve our balance sheet and protect the dividend." So investors can feel confident that the dividend will be maintained at all costs, and only cut as a last resort.

2. A conservative balance sheet

As oil prices have tanked, it's been the highly indebted producers that have suffered most. Luckily, Crescent Point has a very strong balance sheet.

To illustrate, the company's net debt totalled only \$2.8 billion as of September 30, not much for a firm with an \$11 billion market value. Crescent Point can also borrow an additional \$1.6 billion through one

of its credit facilities, should a rainy day come. By comparison, cash dividend payments totalled only \$600 million through the first nine months of 2014.

So as long as Crescent Point is determined to protect the dividend, the company should be stable enough to do so.

3. A strong hedging program

Finally, Crescent Point should continue to be very profitable this year, even with low oil prices. Why? Well, more than half of the company's production for 2015 is locked in at prices in excess of \$90 per barrel, with additional hedges in place for the following three years. So even if oil prices stay depressed throughout the year, the company will be under little pressure to cut its payout.

Still not an ideal dividend stock

That being said, if you are looking for quality dividend stocks, Crescent Point is probably not your best option. The company has to issue a lot of equity just to pay for the dividend, and as a result the share count has skyrocketed in recent years. With the share price down so much in recent months, that trend will only accelerate.

Instead, if you're looking for a solid dividend, you should go with one of the stocks featured in the free report below.

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1. Dividend Stocks
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1. NYSE:VRN (Veren)
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Category

1. Dividend Stocks
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Date

2025/07/22

Date Created

2015/01/06

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