Crescent Point Energy Corp: Consider This 10.7% Yield on Notice

Description

On Tuesday, **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) unveiled its 2015 capital budget.

For the most part, Crescent Point's budget mirrored many of its rivals — with spending on long-term projects down significantly, it chose to focus on developments that will produce in 2015. Overall the company's total spending is expected to be down 28% compared to last year, coming in at $1.45 billion.

Production, on the other hand, is only expected to decline slightly from its 2014 exit rate of 155,000 barrels of oil equivalent per day. The company also told many of its contractors that it expects a reduction of service costs by at least 10% in an effort to cut costs.

It's not all bad news for Crescent Point investors, at least from an income perspective. Because of the company's hedging plan and the reduction in capital spending, management indicated that the company's dividend was safe for the time being. Considering the stock has a 10.7% yield, that's a pretty important statement. Even if oil continues to be weak for the time being, at least investors are getting paid to wait.

But as we've seen over the past few months, energy dividends are less secure than an unlocked car in the bad part of town. Can Crescent Point really afford its dividend, or is management just saying the right thing to appease investors?

The numbers

Unlike many other producers, Crescent Point's 2015 guidance was pretty light on actual numbers. I'm going to have to make a few assumptions.

The company forecasted 140,600 barrels of oil in daily production, and the equivalent of 11,900 barrels of oil in natural gas production. The company also says that more than half of its oil production has been hedged at above $90 per barrel. Based on an oil price of $50, let's assume the company's average selling price is $70 for 2015.

For the first nine months of 2014 (fourth-quarter results aren't out yet), the company generated cash from operations of $1.8 billion. Even though the price of crude was down in the fourth quarter, we'll give Crescent Point the benefit of the doubt and assume it continued generating cash at the same rate. Thus, 2014's cash from operations would be in the neighborhood of $2.4 billion.

The company received an average of $88.07 in revenue from each barrel of production for 2014. Based on today's oil prices and the company's hedging program, let's assume a 20.5% decrease in the company's revenue for 2015. We'll keep the model simple and just assume a 20.5% decrease in funds from operations. That works out to $1.91 billion.

Once we subtract the company's planned capital expenditures of $1.45 billion, we're left with $460 million to pay the dividend.

Crescent Point is a serial issuer of shares. The company has increased its share count from 238.7 million at the end of 2010 to 443.4 million at the end of its most recent quarter. That number is likely to be even higher today, since many of the company's shareholders take their dividends in the form of more shares.

Based on 443.4 million outstanding shares and a projected $1.04 per share left over to pay shareholders, the conclusion is obvious. Without borrowing or issuing new shares, Crescent Point cannot afford to pay shareholders the current dividend of $2.76 per share. It's not even close.

For me, what's more troubling is the lack of detail from the company's capital budget. Every other energy company I've looked at over the last couple months has laid it all out for investors. Crescent Point simply told investors what production is expected to be, gave vague details about its hedging program, provided its capital budget, and left it up to investors to fill in the blanks. That's not good disclosure, at least from my perspective.

By selling the stock off to the point where it yields 10.7%, the market is sending investors a signal. Management is sending a different signal. Go with the market on this one, and just assume the dividend is going away. It's better to be safe than sorry.

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