



How Safe Is Crescent Point Energy Corp.'s Monster 10% Dividend Yield?

Description

The rout in crude prices continues to claim the scalps of the monster yields in the patch investors have become accustomed to. Already **Canadian Oil Sands Ltd.** (TSX:COS), **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), **Lightstream Resources Ltd.** (TSX:LTS), and **Baytex Energy Corp.** ([TSX:BTE](#))(NYSE:BTE) have slashed their dividends.

Now analysts are growing increasingly worried that **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) will be next, with its dividend yield nudging 10% and West Texas Intermediate or WTI now under \$50 per barrel.

But despite these concerns I don't believe that Crescent Point will need to cut its dividend at this time, despite WTI being at its lowest point since early 2009.

Let me explain why.

Solid hedging position mitigates the risks of lower crude prices

Crescent Point has a strong risk management program that protects it from the downside of lower crude prices, through a range of price hedges for oil and natural gas. This now sees over 50% of Crescent Point's 2015 oil production hedged at \$90 per barrel net of royalties, smoothing out its cash flow and reducing the impact of significantly lower crude prices.

It also helps to shield Crescent Point's dividend and reduce the risk of it being cut. In fact, the company has confirmed in its 2015 capital budget that the dividend at this time remains unchanged.

Cost savings through reduced capital expenditures and operating costs

As part of its 2015 capital budget Crescent Point has announced that capital expenditures or capex have been reduced by 28% in comparison to 2014, while it seeking to reduce costs by 10% during the same period. This will allow Crescent Point to create considerable savings which can be directed to sustaining the dividend even as cash flows fall on the back of markedly softer crude prices.

History of maintaining its dividend despite significantly softer crude prices

At the height of the global financial crisis in late 2008 when the price of WTI fell to under \$40 per barrel, Crescent Point's dividend remained unchanged.

This was because company's hedging position and solid balance sheet endowed it with considerable financial flexibility, giving it the ability to weather lower crude prices without cutting its dividend. The company now finds itself in a similar position and its financial strength and flexibility leave it well positioned to weather the markedly lower crude prices dominating the outlook for the oil industry.

Where to from here?

What is unclear at this time is just how long low crude prices will remain with conflicting information coming from analysts. During the global financial crisis crude prices bounced back after a year returning to above \$80 per barrel by the end of 2009.

But if significantly lower crude prices remain in place for a considerable time, then Crescent Point will eventually be forced to cut its dividend in order retain sufficient cash flow for investment in production-sustaining capital expenditures. Yet for this to occur, I would expect them to have to remain in place for a prolonged period of greater than two years, which appears unlikely.

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