Crescent Point Energy Corp. Dividend Is Safe and Sound in 2015

Description

When oil prices are in the $100s, paying a high dividend is not that crazy. There's plenty of money coming in and companies can reward their investors. However, when the price of oil plummets, paying a dividend of 9.45% sounds outright insane. How a company could give that much money back to its investors with oil so cheap had me really skeptical. But then I dove into **Crescent Point Energy Corp** (TSX:CPG)(NYSE:CPG) and learned about its business. Now I'm a believer.

Unlike other oil companies that have contractual agreements for only 20% of total production, Crescent Point Energy has about 50% of its expected production already under contract. That means that companies have already agreed to pay Crescent Point over $90 a barrel for its oil, even though the price is about half that. That allows Crescent Point to continue generating considerable cash flow even with oil that low.

But it's not just the company's smart strategy to hedge its assets that means it can pay investors regularly. Crescent Point announced that it was cutting its capital expenditures 28% going into 2015. It anticipates spending $1.45 billion with 88% of that going to drilling and development. That $400 million will go a long way toward keeping the dividend in place and allowing Crescent Point to potentially acquire small targets that could further increase its cash flow. With this cut in capital expenditure and the consistent hedging, the company is in a really comfortable place.

It's really efficient

But let's take the hedging and the reduced capital expenditure out of the equation and look at how much it costs the company to actually drill for oil in its four main areas. Uinta is the most expensive of its fields with prices in the high US$50s. But in Viewfield, it averages US$41 a barrel. Viewfield is its largest producing area. In Flat Lake, it averages US$49 a barrel. And in Shaunavon, it averages US$52 a barrel.

Some of Crescent Point's biggest competitors require oil to be in the US$60s before they can even think about breaking even. But for Crescent Point, it can generate some profit even with the price of oil where it is today. And it's that ability to generate profit even now that makes me feel that the dividend is safe.

But only for 2015

At some point, though, Crescent Point's luck could run out. If oil remains at its current price, Crescent Point won't have the hedged advantage going into 2016. That means that it will be stuck selling oil at regular market price, which would severely hurt its dividend. It's almost impossible to pay nearly 10% in dividend when you're not making any profit.

Therefore, Crescent Point is a relatively safe investment for 2015, but if oil prices don't start rising toward the end of the year, this company could experience some tough times ahead of it and would require a dividend cut. Fortunately, many analysts don't believe oil will stay depressed for that long.

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