Is Crescent Point Energy Corp.'s Monster Dividend Yield Sustainable?

Description

Light oil heavyweight **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has been one of the very few operators in the patch that hasn't slashed its dividend because of the oil rout. However, with its yield now approaching double figures, a number of analysts are concerned that its dividend is unsustainable and could be cut, despite Crescent Point's pledge to maintain it.

Let's take a closer look at Crescent Point and its latest results to see whether this monster yield is sustainable.

Now what?

For the full year of 2014, Crescent Point reported some impressive financial results, despite the oil rout that began in the second half of 2014. Net income more than doubled when compared with 2013, while cash flow from operations shot up an impressive 18% year over year.

More impressively, its dividend payout ratio for the full year—a portion of cash flow from operations—was a modest 49%.

The key drivers of this solid performance was a significant growth in crude production, which is up by a very healthy 17% year over year combined with higher operating margins. For the full year of 2014, Crescent Point's netback—a key measure of profitability—grew by 1% compared with 2013 to be $50.39 per barrel. This is one of the highest netbacks in the patch and highlights the quality of Crescent Point's assets.

It also ended the year with a particularly strong balance sheet, despite having made a range of acquisitions over the course of 2014. One of the key attributes of this solid balance sheet is its low degree of leverage, with it having a very modest net-debt of 1.3 times cash flow.

Such a strong balance sheet gives it a considerable degree of operational flexibility, including the ability to raise additional debt to fund its financial commitments. This has already allowed Crescent Point to boost its credit facility by $1 billion to $3.5 billion, of which, only 35% has been drawn down, thus giving it considerable liquidity.

More importantly, from the perspective of maintaining cash flow, Crescent Point expects 2015 oil production to grow by 8%, of which, just over 50% has been hedged at an average price of $90 per barrel.

Each of these factors highlights the strength of Crescent Point's operations and its ability to continue to fund its dividend, even with the current slump in crude prices.

So what?

After seeing its share price plunge 17% over the last six months when the oil rout began, Crescent

Point appears to be very attractively priced. It has an enterprise value of eight times its forecast 2015 EBITDA and 20 times its oil reserves. In fact, Crescent Point's oil reserves have a value of $36 per share, which is a 24% premium to its current share price, underscoring just how much the market has undervalued the company.

For these reasons, I not only believe that Crescent Point's dividend is sustainable, but that the company offers investors considerable potential upside, thus making it a solid levered play on a rebound in crude.

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Date
2025/09/09
Date Created
2015/03/13
Author
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