How Long Can Crescent Point Energy Corp. Sustain its Monster Dividend?

Description

You've got to hand it to **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). The company has positioned itself very well in today's oil price environment, and has numerous advantages over its peers.

To start, the company has very high-quality assets, located mainly in the Bakken formation. In fact, Crescent Point is the largest player in the Canadian Bakken, which has the strongest economics of any large light oil play in North America. So, the company should continue generating strong cash flow, even in today's oil environment.

Crescent Point also has a very strong balance sheet, with only $3.2 billion of net debt. That's not too much for a company valued at about $12 billion. Finally, and perhaps most importantly, Crescent Point has a very strong hedging program in place. To be more specific, over half of its production this year is hedged at prices close to US$90 per barrel.

For these reasons, Crescent Point has managed to sustain its monster dividend, which pays $0.23 per share per month. One question remains though: How long will this last?

The basic numbers

Last year, Crescent Point declared nearly $1.2 billion in dividends to shareholders, but also offers a 5% incentive to any shareholder willing to receive his or her dividend in shares (rather than cash). As a result, the company only paid out $835 million in cash, or 70% of the total amount.

This cash cost should reach $900 million this year just from using current numbers, and increase slowly from there. So, that leaves the all-important question: How long can Crescent Point make these kinds of payments?

Eventually, the chickens come home to roost

At first glance, the dividend seems very easy to pay. After all, funds flow from operations totaled $2.4 billion last year. When you look a little deeper, this looks more ominous.

Last year, Crescent Point spent over $2 billion on capital expenditures. So, free cash flow was actually closer to $300 million. This year, capex is being slashed below $1.5 billion, but free cash flow won't be high enough to cover the dividend, especially at lower prices. The company's hedging program will help mightily this year, but much less oil is hedged for next year.

Remember, this is an oil stock

Whenever a company pays a big dividend, it can be very enticing; as long as the dividend never gets cut, you don't even need to worry about the stock price. You can just continue to collect your monthly payout.

That said, let me make one thing very clear: Crescent Point is an oil producer, just like any other. In other words, if you are buying this company, you are betting on the oil price. If the oil price crashes and you're holding Crescent Point shares, you will lose money, no matter what the dividend currently is.

Likewise, if oil recovers, then the dividend will be maintained, and you will enjoy some nice capital gains too. If that's the bet you want to make, then by all means, Crescent Point is the stock for you. Otherwise, you should look elsewhere.

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1. Dividend Stocks
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bensinclair