After a Bad First Quarter, Is Crescent Point Energy Corp.'s Dividend Safe?

Description

With oil prices so low, expectations were not high when **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) reported results for the first quarter of 2015. Yet Crescent Point's numbers still fell short—the company posted a loss of $0.10 per share, missing estimates by $0.08. In response, the company's U.S.-listed shares have declined by roughly 4% as of this writing.

This brings up a very obvious question: Is Crescent Point's dividend safe? After all, the company's dividend yields a staggering 9.2%, tops among companies listed on the **S&P/TSX 60**.

Too big to swallow

When looking at last quarter's numbers, Crescent Point's dividend starts to look very unaffordable.

In the quarter the company declared just over $310 million in dividends. Meanwhile, the company reported a $46 million loss. Free cash flow was even worse, coming in at negative $170 million. So, how was the company able to pay such a generous dividend?

Well, to start with, Crescent Point offers shareholders an incentive to receive their dividend in shares rather than cash. Some shareholders took up the offer. So, the company only had to pay $224 million in cash dividends.

It doesn't stop there. Crescent Point increased its debt by a staggering $500 million last quarter and also borrowed another $300+ million in April. Granted, not all of this money is being used to pay the dividend; the company has some ambitious growth plans too. Yet this dividend-paying strategy can't go on forever.

It gets worse

Crescent Point likes to highlight its hedging program, which is a big advantage in today's oil price environment. And to no one's surprise, derivatives were a major help in the first quarter, adding $213 million to pretax income and $166 million to cash flow.

In other words, without this hedging program, Crescent Point's numbers would have been that much worse. So, unless oil prices recover (thankfully that's happened a little bit since the quarter ended), the company could easily lose a lot more money in future quarters. That doesn't bode well for the dividend.

Safe for now

That said, Crescent Point probably won't be cutting its payout this year. The company is determined to keep its dividend at $0.23 per month for as long as possible, and its balance sheet is still strong, despite the new borrowings. Better yet, Crescent Point has locked in an average US$88 price for most of its remaining oil production this year. And as mentioned, oil prices have begun to recover.

In the long term, if oil prices remain this low, the dividend cannot last. But for the time being, Crescent Point shareholders can relax.

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