



Dividend Debate: Should You Buy Crescent Point Energy Corp.?

Description

The rout in the oil market has forced many of the sector's former dividend darlings to cut their generous payouts, but **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has refused to abandon its lofty distribution and investors are wondering how long that position can be maintained.

Let's take a look at the current situation to see if Crescent Point should be a part of your dividend portfolio.

Financials

Crescent Point reported Q1 2015 adjusted net earnings from operations of \$28.2 million, or \$0.06 per share. This compared with \$0.52 per share for the same period in 2014. Before adjustments, the company had a net loss of \$46 million.

Lower oil and natural gas prices were primarily responsible for the drop, but the company's strong hedging program and improved production helped mitigate the weaker market conditions.

The cash flow shortfall of \$465 million for the quarter is cause for some concern. Funds flow from operations came in at \$433.5 million, but capital expenditures were \$586 million and the company paid out \$312.6 million in dividends.

Crescent Point finished the first quarter with \$3.6 billion in long-term debt, up from \$2.94 billion at the end of the previous quarter. The company also has \$3.6 billion available in credit facilities, of which, \$1.88 billion was drawn as of March 31, up from \$1.26 billion used at the end of 2014.

The large draw down on the credit line and the increase to the long-term debt position is important to watch moving forward in case the trend continues.

As of March 31 the company had 58% of remaining 2015 oil production hedged at CAD\$88 per barrel. In 2016 the number drops to 35% at \$83 per barrel. About 55% of the company's natural gas production is hedged through the end of 2016.

Production in the first quarter was 153,000 barrels of oil equivalent per day (boe/d), an 18% increase over the same period last year.

Outlook

Crescent Point expects 2015 production to average 152,500 boe/d. Total dividends are expected to remain stable at \$2.76 per share. The company expects to spend \$1.45 billion on capital expenditures through the end of the year.

Should you buy Crescent Point?

At this point, buying the stock requires a belief that oil prices will continue to rebound. The company has a proven management team that deploys capital very effectively and continues to add world-class reserves. Less than 10% of Crescent Point's revenue come from production in Alberta, which means the stock could be a beneficiary of investment rotation out of the oil sands producers.

If you are an energy bull, Crescent Point is a solid long-term play.

However, the difficult market conditions are taking their toll. At current market prices, Crescent Point is not generating enough cash flow to cover both its capital outlays and the dividend payments. Management is well aware of this, which is why the company recently added \$1 billion to its credit facility, giving it roughly \$1.7 billion in undrawn funds.

Debt levels are climbing and half the credit line is already tapped, so investors should prepare for another cash raise via a new equity issue. This would add even more dividend-mouths to feed, so something might have to give on the distribution side. The cash flow simply isn't there to support a growing payout base.

At this point, investors should treat the dividend as a bonus when evaluating the stock.

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