What Crescent Point Energy Corp.'s Agreement to Buy Legacy Oil Means to Investors

Description

On May 26, 2015 **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) announced the agreement to acquire **Legacy Oil Plus Gas Inc.** (TSX:LEG).

This arrangement is roughly worth 1.53 billion, consisting of 18.97 million Crescent Point common shares and net debt of about 967 million.

The deal will add 22,000 barrels of oil equivalent per day of high net back oil production, of which over 15,000 is from conventional and unconventional plays in Crescent Point's core southeast Saskatchewan, Manitoba, and North Dakota areas.

Is Crescent Point's dividend safe?

I think the biggest concern to current shareholders is whether or not the 9.8% dividend is safe.

In the press release, Scott Saxberg, president and CEO of Crescent Point stated, "This acquisition improves the long-term sustainability of our business model and our dividend not only through financial accretion and a lower payout ratio, but through the addition of a mix of assets with significant growth potential, low-decline rates and water-flood potential. The low-cost, high-return Midale assets add yet another layer of top-quartile locations to our drilling inventory and provide us with additional operational flexibility."

So, it looks like the deal increases the safety of the dividend. If we look at the history of the company, Crescent Point has not cut its dividend since 2003. In fact, from 2003-08, the dividend was raised from $0.17 to $0.23 per month.

There was also a period of low oil prices in 2009, but Crescent Point managed to stand firm behind its dividend. Of course, the question of how long the oil price will stay low remains. Still, if the deal with Legacy Oil goes through, we have the CEO's word that it will strengthen Crescent Point's dividend.

How is the deal financed?

Crescent Point announced a $600 million bought deal financing, offering over 21 million Crescent Point common shares at $28.50 per share. As mentioned before, Crescent Point also expects to assume roughly $967 million of net debt for this transaction.

The foreseeable dilution of the shares probably caused the drop of more than 4% on Crescent Point’s shares on May 27. A smaller cause maybe the payout of the $0.23 monthly dividend.

If this deal succeeds…

If Crescent Point acquires Legacy successfully, the deal is expected to be accretive to Crescent Point’s per share reserves, production, and cash flow on a debt-adjusted basis. Additionally, Crescent Point’s payout ratio is also expected to decrease due to the free cash flow profile of the Legacy assets.

What this deal means to shareholders or investors

I think it is a good entry point to buy Crescent Point shares while its dividend yields between 9.5-10.5%. For comparison purposes, its yield hit 10.5% in 2009 and typically oscillated between 5.5-6.5% between 2010 and 2014.

Since Crescent Point is offering its shares at $28.50 per share for its bought deal, I think it makes sense for investors not to pay more than $28.50 for its shares. That fits well for the minimum yield we aim for since $28.50 per share implies almost a yield of 9.7%.

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