Why Crescent Point Energy Corp.'s 12% Dividend Won't Last 2 Years

Description

For years, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has been one of Canada's most popular dividend stocks, and it's easy to see why. The company pays out a consistent $0.23 per share per month, which works out to a whopping 12% yield at today's prices.

Better yet, Crescent Point has proved to be very resilient in a low oil price environment. The company has low costs, a strong balance sheet, and a big hedging program, all of which have helped sustain the dividend. Crescent Point has even gone on the offensive, buying up troubled producer Legacy Oil+Gas Inc. for $1.53 billion. Meanwhile, other producers have been slashing their payouts.

But now the dividend might actually be in danger.

The dividend

Even when oil prices were much higher, Crescent Point wasn't generating enough free cash flow to pay its dividend. To compensate, the company has offered shareholders a dividend reinvestment plan (DRIP) for many years, one that incentivizes shareholders to take their dividend in shares rather than cash. So, Crescent Point can pay its dividend, but the share count increases as a result.

Take the first quarter of last year as an example. Crescent Point declared $278 million in dividends to shareholders, but had already spent all its cash flow on capital expenditures. Crescent Point issued an additional 2.2 million shares to help pay for the dividend.

When times are good, this can work very well. But Crescent Point's shares have fallen by nearly half since then. So, it has to issue more shares to meet its dividend obligations. And Crescent Point must pay dividends on these new shares, too. It's easy to see how this can snowball, especially in a low oil price environment. Just in the last quarter, the company had to issue another 3.3 million shares to cover the DRIP, 50% more than one year earlier.

Is the parade over?

For now, Crescent Point can afford to pay this dividend. But I'd expect the payout to be cut some time over the next two years for a couple of reasons.

First of all, Iran is on the verge of reaching an agreement with the so-called P5+1, an agreement that would roll back sanctions against the country. This would immediately enable Iran to increase its oil exports by 200,000 barrels per day, and there will likely be more increases down the line. This is the last thing that the world oil market, which has 2.6 million barrels per day of excess supply, needs.

Second, Crescent Point's cash flow is being propped up by its hedging program. And if low oil prices persist, then the company won't be able to lock in high oil prices anymore. That will make the company's dividend unaffordable in just a few years.

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