



Is it Wise to Buy Crescent Point Energy Corp. for the 12% Dividend?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is getting close to its 12-month lows, and income investors are wondering if this is a smart time to pick up the stock.

Let's take a look at the current situation to see if the company deserves to be in your portfolio.

Oil prices

When WTI oil prices hit \$44 per barrel earlier this year, Crescent Point stood its ground on paying out its massive dividend. That strategy is consistent with the company's history, and it looked like a successful one through the second quarter as oil rebounded to \$60 per barrel. Now, as oil is back down to \$50 the market is once again wondering if the company can stick it out.

At the moment, there is little evidence that oil prices are headed much higher. Saudi Arabia recently announced record production of 10.6 million barrels per day for June and the country continues to defend its market share.

At the same time, many of the American shale producers that the Saudis want to drive out of the market are digging in their heels. As oil rebounded to \$60, the more efficient shale players were able to lock in strong enough prices to allow them to continue pumping.

Iran is the new wild card as it prepares to enter a post-sanctions phase. By the middle of next year the country could begin adding a significant amount of oil to an already oversupplied global market.

Hedging and cost reductions

Crescent Point is a very efficient producer and management does a good job of hedging production at high prices. This is the reason the company has been able to maintain its high dividend.

In its Q1 2015 earnings statement, Crescent Point said it delivered record daily production of \$154,000 barrels of oil, an 18% increase over Q1 2014. At the same time, costs are coming down significantly. In fact, Crescent Point is targeting a 30% year-over-year improvement in some areas of its operations.

As of April 30 the company had 58% of 2015 production hedged at more than CAD\$88 per barrel and 34% of 2016 production hedged at CAD\$83 per barrel.

If WTI oil prices remain at or below \$50 for an extended period of time, the hedging cushion will disappear and the dividend could be at risk.

Acquisitions

Big companies like Crescent Point can take advantage of weak market conditions to add quality assets at very attractive prices.

The company recently made two acquisitions and has increased its production guidance as a result. Crescent Point bought Legacy Oil and Gas for about \$1.53 billion and just announced an agreement to buy Coral Hill Energy for about \$260 million.

Balance sheet

Crescent Point still has a solid balance sheet. At the end of the first quarter the company had about \$1.7 billion available on its credit lines. Since then the firm has added some long-term debt and raised \$600 million through an equity issue to help pay for the Legacy deal.

Funds flow from operations in the first quarter were \$433.5 million. The numbers for Q2 should be better. Crescent Point plans to spend \$1.45 billion on capital projects this year, so there should be enough cash flow to cover those outlays.

Should you buy?

The market still gobbles up the company's equity every time there is an offering and while many analysts are uncomfortable with Crescent Point's model, the system continues to work. Crescent Point is committed to maintaining the dividend through the end of 2015, and there is enough flexibility to do that at current prices.

Beyond the end of this year, investors have to decide where they think oil prices are headed. If you are a crude bull, then Crescent Point is probably a good buy right now. If you think oil is destined to stay at or below \$50 per barrel for the next two or three years, the stock probably shouldn't be in your dividend portfolio.

At this point, the company looks like a solid long-term pick based on the quality of its assets. Investors should view the dividend as a bonus.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/09/08

Date Created

2015/07/20

Author

aswalker

default watermark

default watermark