Is Crescent Point Energy Corp. About to Cut its Dividend?

Description

Oil continued its downward slide on Monday, driven by yet another plunge in Chinese stocks as well as greater evidence of a global supply glut.

As a result, oil prices now trade at a four-month low, leaving producers in a very difficult position. One of these companies is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), whose $0.23 monthly dividend yields a staggering 14.3% as of this writing.

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Whenever any yield gets this high, it's because investors fear that a dividend cut is coming. And with oil prices so low once again, those fears are looking pretty legitimate over at Crescent Point. The company has placed a top priority on maintaining the payout, but that may not be enough.

Is Crescent Point about to cut its dividend? We take a closer look below.

A look at the first quarter

In the first quarter, Crescent Point declared $317 million in dividends to shareholders. But only $224 million was paid out in cash. The reason for this difference is the company's dividend reinvestment plan, which gives shareholders a 5% incentive to take their dividends in shares.

At first glance, these payouts seem very manageable. Crescent Point's cash flow from operations totaled roughly $400 million in the first quarter, and that was *after* oil prices sank below US$50.

But beneath the surface, there are reasons to be worried. First of all, Crescent Point's cash flow wasn't even high enough to cover its capital expenditures. To make up this gap and cover the dividend, the company simply borrowed more money. Consequently its net debt rose by nearly $350 million (an 11% increase) in just three months.

Second, Crescent Point's sinking share price means the company has to issue more shares to cover its dividend. Of course, the company will need to pay dividends on these shares, too. And the cycle continues.

If that wasn't bad enough, Crescent Point's cash flow was given a big boost from locking in high prices for future production in previous years. This increased cash flow by $166 million in the first quarter alone. Looking ahead, Crescent Point won't be able to do this anymore.

When will the dividend be cut?

To answer this question, let's take a look at Crescent Point's hedging program. The company has over half of remaining 2015 oil production hedged at US$87.50 per barrel. Next year only about a third of production is hedged. That figure drops to 10% in 2017.

So, the company should be able to preserve its dividend through 2016, assuming that remains the top priority. It will likely require the company to raise more debt and equity. But by 2017, you should expect the party to be over, unless oil prices recover significantly by then.

Thus, if you're looking for stable, reliable dividend stocks, you should really look elsewhere.

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