3 Things You Need to Know About Crescent Point Energy Corp.'s 14% Dividend

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is one of Canada's most popular dividend stocks, and it's easy to see why. Its $0.23 monthly payout yields a staggering 14%, easily tops among **S&P/TSX 60-**listed companies. So, if you're looking to generate some extra income from your savings, then this is a compelling option.

default watermark

But before you jump right in, there are some things you need to know about this dividend.

1. It exceeds Crescent Point's earnings power

Crescent Point may pay investors $0.23 per month, but this doesn't mean the company is making that much money. To illustrate, let's take a look at its first-quarter results.

During the quarter the company generated $0.89 per share in cash flow from operations. So, the dividend seems affordable at first glance. But Crescent Point must spend a large chunk of that money on maintenance and new drilling—otherwise, the company will shrink. And in the first quarter, this spending totaled $1.27 per share. Thus in actual fact, Crescent Point was burning cash.

Even in 2014 when oil prices were much higher, Crescent Point's free cash flow totaled only $0.68 for the whole year. That wasn't nearly enough to cover the dividend. This raises a very obvious question: how can the company afford such a payout?

2. The DRIP

One way that Crescent Point pays for its dividend is through its dividend reinvestment plan (DRIP). The DRIP incentivizes shareholders via a 5% discount to take their dividend payments in shares rather than cash. About 30% of shareholders take advantage of this offer.

This is both good news and bad news. The good news is Crescent Point's dividend becomes a lot easier to pay. The bad news is that shareholders get diluted every month, especially when factoring in the 5% discount.

And as Crescent Point's stock price decreases (the company's share price is down 38% in the past three months), more shares must be issued to satisfy the DRIP. For example, Crescent Point issued 3.3 million shares during the first quarter to satisfy the DRIP, an increase of 50% year over year.

Of course, as the share count increases, so does the dividend burden. This will make the payout very difficult to sustain down the road.

3. Why it has survived thus far

At this point, we must give some credit to Crescent Point. It has managed to sustain its dividend while other high-yielding companies have been cutting their payouts left and right. And this isn't just because of the DRIP.

Crescent Point has a very clean balance sheet, with only $3.5 billion of net debt. In addition, the company has some very low-cost operations, which is especially important in this operating environment. Finally, Crescent Point has a very strong hedging program, which added $213 million to pre-tax income in the first quarter alone.

But there's another reason why this dividend hasn't been cut: Crescent Point has made maintaining its dividend a top priority. So, if the company has to borrow money, or cut capital spending, or forego an attractive acquisition, it will do so. Anything to preserve the payout. Eventually though, especially as the hedging program loses its teeth, a dividend cut will be unavoidable.

default watermark

Thus, if you're looking for a sustainable dividend, you should look elsewhere. The free report below is a great place to start.

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
2025/07/22
Date Created
2015/08/04
Author
bensinclair

default watermark