3 Ways Crescent Point Energy Corp. Has Maintained its 15% Dividend

Description

Over the past 12 months we've seen numerous Canadian energy companies cut their dividends. Some have even had to cut their payout multiple times.

Yet during this time, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has managed to keep its dividend at $0.23 per month. And thanks to the company's falling stock price, this dividend now yields a whopping 15%.

So, how exactly has Crescent Point been able to maintain its dividend?

1. A clean balance sheet

In an environment such as this, having a strong balance sheet is an absolute must.

And if you don't believe me, most of the hardest-hit energy companies are the ones with too much debt. For example, **Penn West Petroleum Ltd.** had net debt of 2.6 times funds flow at the end of last year. As a result, the company had to cut its dividend twice by a total of 93%. **Canadian Oil Sands Ltd.** had net debt equivalent to 2.5 times funds flow. And like Penn West, the company had to cut its dividend twice.

Meanwhile, Crescent Point had a net debt of 1.3 times funds flow. This allowed the company to borrow an additional $500 million in the first quarter of this year, which helped fund the dividend. Unfortunately though, this is a very temporary solution for funding the dividend.

2. The DRIP

Crescent Point has a dividend reinvestment plan (DRIP) that incentivizes shareholders to take their dividends in stock rather than cash. This reduces the company's cash burden.

For example, in the first quarter Crescent Point declared $317 million worth of dividends to shareholders, but only paid out $223 million. That means roughly 30% of shareholders elected stock over cash.

But the DRIP has a nasty side effect: it increases the share count. And those new shares require dividends as well. To illustrate what effect this has, Crescent Point issued an additional 3.3 million shares last quarter through its DRIP. Those shares alone come with $9 million of annual dividend obligations.

And this will only get worse. Because Crescent Point's share price has fallen so far, more shares must be issued to cover the DRIP. Those additional shares come with dividend obligations too, and the vicious cycle continues.

3. Hedging

Crescent Point has a very strong hedging program in place, which has partially shielded the company from low oil prices.

To illustrate, this hedging program increased pretax income by $213 million in the first quarter alone. And the program still has plenty of legs left, with 54% of remaining 2015 oil production hedged at $87.50 per barrel.

But eventually it will be impossible for Crescent Point to lock in such high prices. And in 2017, only 10% of production is hedged. At this point you should expect the dividend to come under serious pressure, unless oil prices rebound sharply.

So, if you're looking for safe dividends, this is certainly not the company for you. Three better alternatives are featured in the free report below.

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