Can the 15% Dividend From Crescent Point Energy Corp. Survive $40 Oil?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is one of Canada's favourite dividend stocks, and it's easy to see why. The company has distributed $0.23 per share every month since July 2008, and this dividend now yields a whopping 15%. That's easily tops among **S&P/TSX 60**-listed companies.

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But oil prices are plummeting, with the latest blow coming on Tuesday, when China devalued its currency. The move makes imports more expensive for the world's biggest oil importer, which poses a threat to oil demand going forward. We are now seriously looking at the possibility of US$40 oil.

So, what effect would this have on Crescent Point's dividend?

A look at the first quarter

Crescent Point's first-quarter results (the most recent financial information available) should make its shareholders very nervous.

To start, funds flow from operations came in at $433 million, not enough to cover the $586 million in capital expenditures. So, to cover the dividend Crescent Point raised over $500 million in long-term debt. The company also issued 3.3 million shares to cover its dividend reinvestment plan.

And since then the operating environment has only gotten worse. The WTI oil price averaged US$48.56 in the first quarter, but has sunk since then. Meanwhile, Crescent Point's hedging program will lose its teeth in the next couple of years. This does not bode well for the dividend.

Some worrying moves since then

Crescent Point has been very active since the end of the first quarter. In late May the company announced it would acquire Legacy Oil + Gas for $1.53 billion. Then in June it successfully issued 18 million new shares to help finance the acquisition. In July Crescent Point made a filing that allows the company to raise $2.5 billion in additional capital, when it so chooses.

As a result, Crescent Point has a much larger share count, and this number could increase a lot more.

The company will need to pay a 15% dividend on all these new shares, something that will be very challenging if oil is trading for US$40 per barrel.

There's even a chance Crescent Point knows a dividend cut is coming, and wanted to raise equity before this happens. After all, raising equity would become a lot harder after a dividend cut. To be clear, this is only speculation, but it's still something shareholders should keep in mind.

The dividend cannot last

Thus far, Crescent Point has boosted its cash flow through its hedging program. Put simply, the company locked in high prices for most of its 2015 production last year while it could. But these hedges cover only 30% of production in 2016 and 10% in 2017. Unless oil prices recover in the interim, there's practically no chance the dividend can survive that long.

So, if you're looking for a dividend you can trust, now's your chance to sell Crescent Point. For better alternatives, be sure to check out the free report below.

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