Is Crescent Point Energy Corp. a Buy After Slashing its 15% Dividend?

Description

On Thursday morning, while reporting earnings for the second quarter, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) slashed its monthly dividend from $0.23 down to $0.10.

There will certainly be some upset shareholders. Before the cut, Crescent Point had a dividend yield of about 15%, tops among companies listed on the **S&P/TSX 60**. Based on Wednesday's closing price, that yield drops to 6.7%.

So, why did Crescent Point cut its dividend? And is the stock still worth buying?

An unsustainable payout

When oil prices plummeted late last year, Crescent Point was well prepared with a strong balance sheet and a robust hedging program. Thus, the company was able to maintain its dividend while so many of its peers could not.

But as 2015 wore on it became clear that the dividend simply couldn't last. In the first quarter Crescent Point borrowed close to $500 million, in part to fund the dividend. Then last quarter the company's share count increased by close to 50 million. These kinds of fundraising activities can't be done every quarter.

If that wasn't bad enough, the operating environment has worsened since the end of the second quarter. Spot oil prices and future oil prices have both declined, differentials have widened, and natural gas prices remain depressed.

In previous articles, I said Crescent Point's dividend can't possibly survive the next couple of years, especially as the hedging program loses its teeth. Clearly the company's management team agreed, and has decided to take a proactive approach. It was the right thing to do, especially with oil prices moving so much lower.

Is the stock now worth buying?

Crescent Point's decision may be unpopular, but it was absolutely the right one. So, does that make the stock a good buy at this point?

Well, not necessarily. Crescent Point only made $160 million in free cash flow last quarter, not much for a company valued at $9 billion (as of Wednesday's close). And that free cash flow number came with an average WTI oil price of US$58. With WTI currently at US$43, you should expect cash flow to decrease further still.

Making matters worse, Crescent Point's reduced dividend is no guarantee either. With close to 500 million shares outstanding, the company's dividend bill will total nearly $150 million per quarter. Unless oil prices recover, I don't see the company making that kind of free cash flow, especially as the hedging program loses steam.

Unless Crescent Point's share price goes into free-fall (which is not impossible given the size of this dividend cut), it should remain out of your portfolio.

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
2015/08/13
Author
bensinclair