Will Crescent Point Energy Corp. Cut its Dividend Again?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) made the right decision on Thursday by cutting its monthly dividend from $0.23 to $0.10. The move will save Crescent Point close to $800 million per year, which is absolutely crucial in this oil-price environment.

Yet even after the cut, Crescent Point still yields close to 7%. And we've seen other energy companies do multiple rounds of dividend cuts in the past year. So, just how sustainable is this dividend?

Some worrying signs

When looking at the second quarter of 2015, there are some signs Crescent Point can't sustain even its reduced dividend.

To illustrate, the company earned roughly $150 million in free cash flow last quarter. But this came during a period when the WTI oil price averaged close to US$60. Fast forward to today, and WTI has sunk into the low US$40s.

It gets worse. Crescent Point generated over US$100 million last quarter from realized derivative gains. In plain English, the company locked in high prices last year while it could, which boosted cash flow last quarter. Of course, this can no longer be done.

Granted, Crescent Point's daily production numbers will increase from the Legacy Oil + Gas acquisition. But unless oil prices recover, it's hard to imagine Crescent Point earning more than $100 million in free cash flow per quarter. Meanwhile, the dividend will cost Crescent Point roughly $150 million per quarter.

More money needed

In the first quarter of this year Crescent Point raised about $500 million in debt. Then in the second quarter, it increased the share count by 50 million. And more capital raising could be on the way soon.

The company recently filed a prospectus with securities regulators in Canada and the United States.

Doing so allows the company to raise up to $2.5 billion in additional capital.

So, we could easily see more debt and more shares on the horizon. But this isn’t a sufficient long-term strategy for maintaining the dividend.

It all depends on oil prices

Needless to say, if oil prices go down even further, then Crescent Point’s dividend doesn’t have a chance of avoiding another cut. On the other hand, the dividend has a better chance of surviving if oil prices recover.

So, if you’re looking to bet on the price of oil, this is still a very solid company, with great assets and a strong balance sheet. But if you’re looking for reliable dividends, you should look elsewhere—preferably outside the energy sector altogether.

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