3 Huge Surprises From Crescent Point Energy Corp's Earnings

Description

Crescent Point Energy Corp.'s (TSX:CPG) recent second-quarter report was filled with surprises. The company badly missed analysts' expectations while also slashing its dividend. Here's a closer look at what the company unveiled to investors during the quarter.

1. Surprise! We really missed estimates

Crescent Point Energy's second-quarter financial results were well below expectations. The company only earned $0.09 per share, which was $0.12 per share less than analysts were expecting. This was despite the fact that the company's production was higher than expected, while its costs continue to fall.

The problem, however, is that its costs simply aren't falling as much as expected. Operating expenses were only down 7% year-over-year on a per barrel basis. While that's good, the company still has a long way to go as many of its peers have been able to capture double-digit cost reductions.

2. Surprise! We're slashing our dividend

The weakness in the oil price is having a big impact on Crescent Point Energy's cash flow, which was down 18% year-over-year. While the cash flow drop could have been worse as the company's average selling price per barrel is down 39% year-over-year, the decline is still causing concern. Further, there's a growing belief within the industry that prices will be lower for longer.

In fact, it's the recent weakness in the oil prices that's behind the company's decision to slash its dividend by 57%. The company noted that prior to the recent steep decline in prices in July, which saw oil fall 22%, it was comfortable with the sustainability of its dividend. However, given that drop and the outlook that "the low pricing environment may be more sustained" CEO Scott Saxberg said that cutting the dividend is, "the right decision". Still, it was a surprising move and really stung the company's income focused investors.

3. Surprise! We're taking a slice out of our capex

In addition to cutting its dividend, Crescent Point Energy is also slicing another $100 million off its capex. This will bring its planned spending down to $1.45 billion for 2015. However, what's really worth noting here is the fact that despite the capex cut the company expects its production to hit its guidance target of 163,000 barrels of oil equivalent per day.

The reason the company is able to slice so much off of its capex without impacting production is a result of the company's cost-saving initiatives. While operating costs aren't falling as steeply as expected, capex costs are down 20% or more across several of the company's plays. This is enabling the company to get the same amount of production growth with less capital being spent.

Investor takeaway

Weak oil prices got the best of Crescent Point Energy during the second quarter. This is now forcing the company to cut its dividend based on worries that oil will be lower for longer. That said, if there is a silver lining it's the fact that the company is seeing much stronger savings on capex, which enabled it to take a big slice out of its budget without impacting production.

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