Should Dividend-Stripped Canadian Oil Sands Ltd. and Crescent Point Energy Corp. Still Be in Your Portfolio?

Description

The energy sector hasn't been enjoying the slump in oil prices.

With oil prices dipping over 30% in the past year, companies are at the point where there is very little room left to carve out savings or efficiencies to keep guidance on track.

Thousands of jobs and countless projects that are no longer feasible in the current economy of low-priced oil have already been eliminated or canceled. It now seems that the coveted dividend is next in line for cutting.

Two companies that have already taken a significant hit on dividends are **Canadian Oil Sands Ltd.** (TSX:COS) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

Let's take a look at both of these companies and what the reduction in dividends means moving forward.

The case for Canadian Oil Sands Ltd

Canadian Oil Sands was expecting oil prices to be $55 per barrel for 2015. With oil prices now dropping into the 40s in what is typically a peak price period, it seems unlikely that Canadian Oil Sands will deliver on this most recent guidance.

The stock is currently trading just over $6.39, edging closer to the 52-week low of $6.01, despite reporting better-than-expected results during the most recent quarter. Earnings per share were reported at $0.12 per share, $0.24 better than what was expected.

Quarterly dividends for the company dropped significantly from $0.35 per share to just $0.05. The 86% drop that came earlier this year may soon be followed by another drop, or elimination of the dividend altogether.

Analysts have, in most cases, reduced price targets for the company to more conservative levels, with updated figures in line with approximately $11.00.

The case for Crescent Point Energy Corp.

Crescent Point had previously maintained that dividends levels were sustainable at their previous levels. While this may have been true when oil was significantly more expensive, this is not the case anymore.

The monthly dividend was slashed by 57% to $0.10 per share on August 12.

Additionally, the company recently announced it would be slashing capital expenditures by approximately $100 million for 2015.

Crescent Point is currently priced just under $16, and seems likely to hit the 52-week low of $15.90. Year-to-date, the stock is down by 60%.

Analysts have cut price targets for the company, but still maintain targets to be in the $25-30 range.

What does this mean for the future?

Dividends are great for investors, and companies know this. However, when considering all options, the continued growth and long-term value that these companies represent will outweigh whatever lost dividend income an investor would have received.

The drop in oil prices is having an impact on the entire industry and is likely to be here for some time. Bloomberg data now shows over 20 percent of the energy index has cut dividends during the second quarter.

With those levels, it may be better to wait out the storm and focus on the long-term value that these stocks will gather over the lost dividends.

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1. Editor's Choice

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