3 Things You Need to Know About Crescent Point Energy Corp. and its New Dividend

Description

While reporting results for the second quarter of 2015, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) cut its monthly dividend from $0.23 down to $0.10. The move was widely seen as prudent. Crescent Point quite simply could not afford such a big dividend in this oil-price environment, and the cut will help the company preserve its balance sheet. Tellingly, Crescent Point shares increased in response.

So, does this make Crescent Point an attractive dividend stock? And what else do you need to know? We look at three key things below.

1. Still a big payout

Despite cutting its payout by 57%, Crescent Point's dividend still yields well over 7%. This raises a very obvious question: could the payout be cut again?

There's a strong possibility. In a conference call with analysts, CEO Scott Saxberg said that based on forward oil prices the company's payout ratio falls somewhere between 100% and 110%. In other words, Crescent Point expects to devote all its free cash flow to the dividend.

And this assumes Crescent Point achieves further cost cuts, which is no sure feat. Of course, it also assumes oil prices don't deteriorate further. Make no mistake: there's a very real possibility of this dividend getting cut again.

2. No more discount

One of the key features of Crescent Point's dividend was its dividend reinvestment plan (DRIP). Under the DRIP, shareholders received a 5% incentive for taking their dividends in shares rather than cash. The offer was taken up by roughly 30% of shareholders, allowing Crescent Point to conserve cash.

There was an obvious drawback: the DRIP increased the share count, which not only diluted existing shareholders, but also increased the future dividend obligation. And as Crescent Point's share price decreased, the company had to issue more and more shares to cover the DRIP payments.

That plan has now been suspended, meaning that all shareholders receive the same $0.10 monthly cash payment. Crescent Point most likely did this because it believes its shares are undervalued and wouldn’t want to issue new shares under such circumstances.

3. A bet on oil

Generally speaking, Crescent Point’s management is fairly optimistic about the company’s future. Mr. Saxberg even said that OPEC could cut its production quota later this year, a view shared by very few analysts.

For this reason, you should expect the company to dial back its robust hedging program. Instead, the company will likely gamble on rising crude prices.

Thus, if you’re looking to make a similar bet on crude, Crescent Point shares are one way to do so. But if you’re just looking for a rock-solid dividend, your best bet is to look elsewhere. The free report below is a great place to start.

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