Get Ready for Another Dividend Cut From Crescent Point Energy Corp.

Description

When **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) cut its dividend by 57% earlier this month, investors reacted fairly positively to the change. After all, the company clearly could not afford its $0.23 per share monthly payout.

But even now with just a $0.10 dividend, Crescent Point could easily cut the payout again. We take a look at three reasons why below.

1. Not enough free cash flow

Let's start by looking at the company's second-quarter results. In the three months ending June 30th, Crescent Point made nearly $500 million in cash flow from operating activities. But the company spent over $300 million of that on capital expenditures. Overall, the company recorded just over $160 million in free cash flow.

Meanwhile, the company has close to 500 million shares outstanding. So, a $0.10 per month dividend would cost the company roughly $150 million per quarter. At first glance, the company can cover its payout.

But keep in mind that oil prices averaged close to US$60 per barrel in the quarter. Now, the price has fallen below US$40. Crescent Point has responded well to low oil prices in the past, but at these levels, there's only so much that can be done.

2. No recovery in sight

Even with oil prices so low, Crescent Point remains optimistic. In a recent news release, Crescent Point said it "expects to realize further cost savings and efficiencies in this current low oil price environment, which it expects to further improve well economics on a long-term basis."

In other words, Crescent Point expects oil prices to rebound. But there is little sign of this happening. Instead it seems like every producer is engaged in a war of attrition. And this will only intensify as Iran rejoins the market.

We've seen this kind of situation before. Oil prices fell by about two-thirds back in 1986 and stayed there until Iraq invaded Kuwait in 1990. That was the last time a supply glut caused oil prices to crash. So, if history repeats itself, Crescent Point's dividend is in deep trouble.

3. The hedging program

Crescent Point's $0.23 payout lasted a lot longer than many other energy dividends. A big reason for that was the company's hedging program.

To put it simply, Crescent Point was able to lock in high oil prices for future production last year. This boosted cash flow by $113 million just last quarter. But with oil prices so low, this is no longer possible. Thus, Crescent Point's cash flow will come under serious pressure as its existing hedges expire.

The good news is that over 50% of remaining 2015 production is hedged at $88 per barrel. But in 2016 only 32% is hedged, and in 2017 only 10% is hedged. In a couple of years the dividend will come under significant pressure unless oil prices recover.

Thus, if you're looking for a stable dividend, this is not the stock for you. Better alternatives are revealed in the free report below.

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