Crescent Point Energy Corp. and its 9% Dividend Have a Cash Flow Problem

Description

For the first seven months of this year, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) had the highest dividend yield of any company listed on the **S&P/TSX 60**. Then on August 12th, the company cut its dividend by 57%. But this is not where the story ends.

Crescent Point's share price has fallen by over 50% in the last three months and, as a result, its dividend once again yields over 9%. That's good enough for second place on the TSX 60, behind only **TransAlta Corporation**. So, this brings up an obvious question: is Crescent Point going to cut its dividend again?

Well, that of course depends on whether the company can deliver sufficient cash flow. And the prognosis does not look good.

A closer look at the second quarter

In the second quarter of 2015 Crescent Point generated roughly $500 million in cash flow from operating activities. By comparison, the company's dividend burden will cost only $150 million every three months. At first glance it seems there's plenty of money flowing in to cover the dividend. But that's not the whole story. The $500 million number doesn't include any capital expenditures—after making that deduction, free cash flow totaled only $160 million.

There's still more to consider.

Crescent Point's cash flow got a $113 million boost from the company's hedging program. To put it simply, in previous years the company locked in prices for part of its future production. Now that oil prices have fallen so far, that option is no longer available. So, if you exclude those derivative gains, Crescent Point generated less than $50 million in free cash flow. And that was with oil trading at close to US$60 per barrel. With oil at roughly US$40 per barrel, this free cash flow number declines significantly.

How long can the new dividend last?

Crescent Point isn't about to cut its dividend again—there are a few reasons why the payout will last for at least a year or two. First of all, the hedging program remains quite strong, with over half of remaining 2015 production hedged at US$80+ prices. This number drops to 32% in 2016, and 10% the following year.

Secondly, Crescent Point has recently acquired Legacy Oil + Gas, which increases production by nearly 15%. Finally, the company has shown an intention of raising more capital, and this money could be used to fund the dividend. If oil prices recover during this time, then the dividend will survive.

Otherwise, I would expect another dividend cut no later than two years from now. If you're looking for safer payouts, be sure to check out the free report below.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/21
Date Created
2015/08/26
Author
bensinclair