Could Crescent Point Energy Corp. Cut its Dividend Again?

Description

When oil was priced high, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) was killing it with its dividend. It had the highest dividend yield on the **S&P/TSX 60**. If investors had held it for some time, they would making over 9% per year, which is really quite nice.

But then oil prices plummeted and oil companies left and right started cutting dividends. But Crescent Point tried to keep its dividend high. And for some time, it was able to because of its business model, which I'll describe in a moment.

Unfortunately, oil prices stayed low for too long and Crescent Point announced a dividend cut of 57%. The question is, is that going to happen again in the future?

The answer lies in its free cash flow.

Its second-quarter results, on the surface, appeared pretty decent. The company made nearly $500 million in cash flow. That would more than cover the $150 million per quarter in dividend payments, especially since the yield was cut. The problem is that the company spent over $300 million on capital expenditure. Even then, the company should be able to pay its $0.10 per month dividend.

The problem is the fact that the approximately $160 million of available money for dividends was earned when the average price per barrel of oil was $60. Now, it's been in the $40 range for some time, which could cut cash flow below what it needs to finance its dividend. But the business model that I described above further clouds the results and makes me believe that the dividend is going to be cut.

The way that Crescent Point makes a lot of its money is through its hedging program. It signs long-term contracts with companies to buy its oil for a pre-determined amount. If oil prices drop, that hedging still exists. Its 2015 hedging prices were over US$80 per barrel, so $113 million of that $160 million cash flow came from this hedged program. This become problematic because only 32% of its production is hedged in 2016 and only 10% in the year after. In other words, if oil prices don't start to rise, the company isn't going to have as much money coming in from its hedging program.

Now, there are ways that the company can attempt to keep its dividend going, even if the price of oil stays depressed. It can borrow money and use that debt to pay the dividend with the hope of oil prices returning to their former glory prices. This would make it easy to pay that money back. It also recently made an acquisition that will allow it to increase production significantly.

Unfortunately, if you are a dividend investor that actually likes to see your dividends go up rather than get cut, I think Crescent Point is a company to avoid. If oil prices do return, jump in and milk the dividend. But for now, find something much safer.

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1. Editor's Choice

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