



## Crescent Point Energy Corp.: Should This Be Your Top Contrarian Pick?

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is rallying off its recent lows, and investors are wondering if this is the opportunity of a lifetime to pick up one of Canada's most popular oil stocks.

Let's take a look at the current situation to see if Crescent Point deserves to be in your portfolio.

### Dividend drama

Well, it finally happened. Crescent Point did the unthinkable and cut its revered dividend. I'm surprised it wasn't the headline story on the *National*. The market completely blew it off, of course. In fact, when the news finally came out, the stock barely budged.

Funny how things work, eh?

It was, nonetheless, a sad day for all the Crescent Point faithful who have ridden the stock all the way down from \$44 per share, desperately hoping that management would hold the line just as they did during the dark days of the Great Recession.

Unfortunately, the oil rout is very different this time and management should be commended for pulling the trigger. In fact, they probably should have done it earlier.

Some pundits say the new distribution is rock solid. If they are correct, you get a nice 7% yield to wait for better days. Other analysts believe it's just a matter of time before the payout joins its peers in the dividend graveyard.

Who's likely to be right?

### Cash flow concerns

Crescent Point recently said it expects to spend \$1.45 billion in 2015. The company already spent \$886 million in the first six months of the year, so that leaves just \$564 million for the remainder of 2015. To stay on target, the company is really going to have to keep things tight.

Production is still projected to average 163,500 boe/d, which is good news for investors who are concerned about cash flow.

Funds from operations in Q2 2015 came in at \$525 million. The company spent \$329 million on capex, so the capital program was adequately covered. The company also forked out \$325 million in dividends. That's why things are all messed up.

If oil had stayed at the Q2 levels, everyone would still be in la la land, but crude has dropped significantly since the end of June, and Crescent Point's management team had to finally face reality and gave in. Otherwise, they would have had to take on as much as \$500 million debt to pay the distribution, and that probably would have caused trouble at the board level.

As of the latest update, Crescent Point still had 54% of its remaining 2015 production hedged at CAD\$88/bbl, so that will help mitigate the pain through the end of the year. The company has 32% of 2016 production hedged at CAD\$83/bbl.

Management knows more trouble is on the way and is warning the market that it expects the realized oil price to drop by more than \$15 per barrel through the back half of 2015. That roughly translates into a \$220 million drop in cash flow per quarter.

Assuming the capex projections for the rest of the year are on target, the company should bring in enough funds to cover those expenses.

What about the dividend?

The company has about 500 million shares outstanding, so the new monthly payout of \$0.10 will cost about \$50 million. If oil continues to recover, the company might actually cover a good chunk of payout by the end of the year.

For the next few months, the distribution should be safe. As for 2016, it's a different story because the hedge position drops significantly.

### **Is Crescent Point a top pick?**

Dividend investors should completely avoid the stock. Contrarian investors might want to start kicking the tires.

If you believe oil prices have bottomed, there is an argument to be made for owning the shares based on the quality of the company's assets and the fact that Crescent Point is primarily focused in Saskatchewan.

A further strengthening of oil prices will certainly light a fire under the stock, but there is no guarantee that's the direction the market is headed.

### **CATEGORY**

1. Energy Stocks
2. Investing

## **TICKERS GLOBAL**

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

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