3 Reasons Crescent Point Energy Corp. Will Cut its 7.3% Dividend Within 2 Years

Description

When **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) slashed its dividend by 57% last month, the move was widely praised. And for good reason. The $0.23 monthly payout was clearly not sustainable, and by cutting it so dramatically, Crescent Point was preserving its balance sheet.

That said, Crescent Point is not out of the woods yet. In fact, the company will likely have to make a similar decision within the next couple of years. Below we take a look at three reasons why.

1. Not enough cash flow

Even after the dividend was cut, Crescent Point's payout still amounts to roughly $150 million per quarter. And in the second quarter, that is about what the company made in free cash flow.

Unfortunately, that was with oil at close to US$60 per barrel. Since then, prices have plummeted once again, falling below US$40 at one point. Differentials have also widened, meaning that Canadian oil trades at a steeper discount.

While reporting second-quarter results, CEO Scott Saxberg said that at current strip pricing, roughly 100% of Crescent Point's free cash flow will go towards the dividend. But that's assuming further cost cuts, and one has to wonder just how safe an assumption that is.

2. A lot of downside for oil prices

While appearing on *The Business News Network*, Sprott portfolio manager Eric Nuttall said that Crescent Point's dividend is sustainable at roughly US$55 oil.

Unfortunately though, oil prices aren't heading there anytime soon. The International Energy Agency has just warned that crude inventories in developed nations won't begin to subside until the second half of 2016, and Iranian exports will exacerbate the supply glut. Goldman Sachs responded that prices could fall as low as US$20 per barrel. At that price, Crescent Point may not even be able to pay its creditors, much less its dividend.

3. The decline of its hedging program

Crescent Point has one of the most robust hedging programs in the industry, which has helped significantly this year. In fact, the strategy added over $100 million to the company's free cash flow tally just last quarter.

But Crescent Point can no longer lock in high oil prices, which means it won't get this same cash flow boost in future years. Without it, the company will have to find other ways to fund its dividend. Unless oil prices recover, that likely means raising more capital, something that cannot be done forever.

So, if you're looking for a steady, reliable dividend, Crescent Point is certainly not the stock for you.

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