



Is Crescent Point Energy Corp.'s New 7% Dividend Safe?

Description

After months of watching its peers cut their formerly generous dividend payouts to next to nothing, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) finally bit the proverbial bullet and slashed its monthly dividend in August from \$0.23 per share down to \$0.10.

The reason was simple. Although the company had been smart and hedged about half of its 2015 oil production at prices around \$90 per barrel, the company just didn't have the cash flow available to fund potential acquisitions and the dividend, and spending on capital expenditures. Something had to give, and it was the payout.

But with oil continuing to languish under \$50 per barrel, is the new 7% dividend yield safe? Maybe not. Let's take a closer look at the numbers.

The real issue with the dividend

Crescent Point has followed a similar strategy throughout its years as a publicly traded company. It finds good assets with attractive potential netbacks, and then gets the money for them by issuing a combination of debt and new shares, choosing to issue new shares whenever possible. It's done this for more than a decade now.

It makes all sorts of sense if a company can pull it off. In theory, a company can issue an unlimited amount of shares, as long as the assets it's buying are deemed to be worth it. Existing shareholders get diluted, but the balance sheet gets bigger. The net effect is that not much changes. Shareholders only get excited when they don't like the acquisitions.

The problem is when a company is paying a very generous dividend to these new shares. Cash flow has to grow as fast as the share count, or else a company starts to run into a pretty big problem. In the energy sector, acquisitions often come in the form of land without any production on it, meaning Crescent Point was often acquiring assets that didn't deliver immediate cash flow.

Yet it would issue shares to pay for these acquisitions, shares that paid dividends without a corresponding increase in cash flow. For years it paid more in dividends than it generated in free cash

flow.

Over the first six months of 2015 the trend continued. Crescent Point generated \$890 million from operations, while spending \$909 million on capital expenditures, good enough for a slightly negative free cash flow. Yet it paid out \$451 million in dividends. There's no way that's sustainable over the long term, especially with crude below \$50.

Even with this smaller dividend, it's doubtful Crescent Point can maintain the payout over the long term if crude doesn't recover. Crescent Point now has more than 500 million shares outstanding. It no longer has a dividend reinvestment plan, which means 100% of all dividends will be paid for in cash. That's \$50 million per month it's going to pay to investors.

For Crescent Point's dividend to really be sustainable, a couple of things have to happen. Either it cuts back on the capital expenditures, or crude recovers. Only then can investors count on the yield. It's that simple.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:VRN (Veren)
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