Crescent Point Energy Corp. Can Maintain its Dividend at $55 Oil

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is a company well known for its big dividend. Even after slashing the payout by 57% in August, the stock still yields 8%, good enough for second place among companies listed on the **S&P/TSX 60**.

Of course, this dividend isn't entirely safe. Oil prices remain stuck in the mid-US$40s per barrel and show no sign of recovery. In fact, there could be further declines once Iran enters the market, and there are concerns about the Chinese economy as well.

So, that brings up the obvious question: what oil price does Crescent Point need to maintain its dividend over the long term? Well, that answer was provided by portfolio manager Eric Nuttall during an interview on *The Business News Network*, when he estimated the company needs US$55 oil to maintain its dividend.

And when looking at the numbers, it appears that Mr. Nuttall is correct. We take a closer look below.

The numbers

In Crescent Point's corporate presentation, the company laid out two broad scenarios for 2016: US$40 oil and US$60 oil.

If oil prices average US$40 per barrel next year, Crescent Point would make $400-500 million in free cash flow this year, not enough to cover the $600 million per year in dividend payments. And this is assuming the company reduces costs by at least another 10%.

To make up the difference, Crescent Point says it can use its 2017 and 2018 hedges in 2016. That would help sustain the dividend in the short term. But if the company uses this strategy, it will need oil prices to recover in 2017 in order to maintain the dividend. This situation would make any dividend investor very nervous.

If oil prices average US$60 next year, then the outlook becomes a lot nicer. Crescent Point could bump up its capital spending under this scenario and still generate roughly $900 million in free cash flow.

That’s more than enough to cover the dividend.

Should you add Crescent Point to your dividend portfolio?

Crescent Point has a fantastic yield, and its dividend should survive at least 2016 under any realistic scenario.

But here’s the problem: for the dividend to ever increase, you’d need oil prices to surge past US$60 per barrel. That’s unlikely to happen any time soon. So, if you’re a long-term investor, your best possible outcome is an 8% return on your initial investment. That’s simply not high enough to compensate for the risk.

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