Does Crescent Point Energy Corp. Belong in Your Dividend Portfolio?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is staging a bit of a comeback after plummeting to lows no shareholder ever thought were possible.

Let's take a look at the current situation to see if income investors should get back into the stock.

A new dividend

Until recently, Crescent Point was a favoured pick in the oil patch because it had always refused to cut its dividend, even in difficult times. The reputation was solidified back in the days of the Great Recession when management maintained the payout despite facing a brutal oil market.

That situation was very different than the one faced today, and Crescent found a way to ride out the relatively short-lived plunge in crude prices.

This time around, things didn't work out as well.

Initially, it appeared the company would once again defy the odds, and management remained committed to its $0.23 per month payout right up to the end of the second quarter.

Then oil prices really hit the skids, and Crescent Point finally had to cry uncle. Management slashed the distribution to $0.10 and revised its spending outlook.

Cutting the dividend was the right move, and the stock barely budged on the day the reduction was announced. Keeping the distribution at the previous level would have been irresponsible.

Is the new 6% payout safe?

Crescent Point said 54% of the remaining 2015 production is hedged at CAD$88/bbl, and just over 30% of 2016 production is hedged at CAD$83/bbl.

That certainly helps offset weak prices, and the company should be able to cover the new payout through the first part of next year if oil stays near its current level. Beyond that, WTI oil will probably have to move north of $50 through 2016 if the existing payout is going to survive.

Growth outlook

Crescent Point should be one of the survivors of the rout, and investors might see the company continue to gobble up weaker players in the next few years. The CEO has always been very aggressive and already bought two companies in 2015. Further acquisitions could see the company emerge from the crisis even bigger and stronger than before, but there's no guarantee we are out of the woods yet.

Takeover target

Crescent Point itself might be a buyout target. The company holds a very attractive portfolio of assets with a core focus in oil-friendly Saskatchewan, and any of the big players with an eye on gaining assets in the prairie province could put together a cash and stock deal to take the company out.

Getting Crescent Point's board to agree might be difficult, and a quick deal is less likely now that the stock has rallied more than 60% off the August lows. Nonetheless, if oil prices reverse course again and take a run at $30, I think Crescent Point could certainly go into play.

Should you buy?

Buying the stock requires the belief that energy markets are on the mend. I'm not convinced that's the case. Investors should at least wait for the Q3 numbers to come out to see how much damage was done through the last half of the summer.

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Date
2025/09/08
Date Created
2015/10/19
Author
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