



Crescent Point Energy Corp.: How Solid Is the 6.5% Dividend?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) still pays one of the best dividends in the oil patch, and investors want to know if the reduced payout is sustainable.

The unthinkable cut

Crescent Point defied the market for as long as it could, but reality finally hit home in August and management had to give in and reduce the long-standing monthly distribution from \$0.23 per share to \$0.10 per share.

It was a bitter day for Crescent Point's die-hard fans who thought the company could pull off another miracle like it did during the Great Recession and ride out the rout without trimming the dividend. For most analysts, the writing had been on the wall for quite some time, and any further delay would have been financially irresponsible.

Now, investors want to know if they can rely on the new monthly payment.

Cash flow

Crescent Point reported Q3 funds flow from operations of \$484 million. The company spent \$321 million on capital expenditures, so cash flow was adequate to cover the costs of keeping the oil flowing and even left \$163 million available for dividends. Unfortunately, Crescent Point paid about \$218 million in dividends during the quarter, so cash flow actually came up short.

With 500 million shares outstanding, the new payout will cost about \$150 million per quarter. If cash flow and capital expenditures continue at the same pace as Q3, funds from operations should be able to cover the reduced distribution.

Production

Crescent point delivered record production of 172,579 barrel of oil equivalent per day (boe/d) during the third quarter. The company made two acquisitions in recent months, and those assets helped boost

output by about 4% per share when compared with Q3 2014.

Balance sheet

Crescent Point finished Q3 with \$4.4 billion in long-term debt, up 70% from the same period last year.

As of September 30, the company had \$1.4 billion in unused borrowing capacity available out of its total facilities of \$3.6 billion.

Crescent Point is still compliant with all of its debt covenants. At the end of Q3 the company's senior debt-to-capital ratio was 0.31. Crescent Point has to keep it below 0.55. The senior-debt-to-EBITDA and total-debt-to-EBITDA ratios are also well within the allowable limits.

Should you buy Crescent Point?

The dividend looks safe for the near term. Crescent Point has 53% of remaining 2015 production hedged at \$88/bbl and 33% of 2016 production hedged at \$83/bbl. The company says it can meet its cash flow needs with WTI at US\$40/bbl or better.

If you believe oil has bottomed, Crescent Point looks like an attractive pick, but that's a gutsy call to make right now.

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