



Crescent Point Energy Corp.: Should Dividend Investors Buy Now?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) slashed its beloved dividend a few months ago, but the current distribution still yields 6.7%.

Is the new dividend safe?

Let's look at the numbers and find out.

Production and cash flow

The drop in oil prices has put a pinch on oil producers' margins, and that sets up a difficult situation for oil companies.

In order to protect their balance sheets, oil and gas producers are slashing capital expenditures. Some are able to maintain decent production on a shoestring budget for a while, but many have to give up production as a result. Lower output means lower cash flow and often results in higher costs per barrel.

Crescent Point has managed to increase production largely due to new acquisitions. The company's Q3 2015 output rose to a record 172,579 boe/d, about 4% better than the same period last year on a per-share basis.

Cash flow in Q3 was \$484 million, higher than the \$321 million spent on capital programs, so funds from operations are covering the costs of keeping the facilities running.

Dividend coverage

Crescent Point cut its monthly dividend from \$0.23 per share to \$0.10 per share. The new distribution requires about \$150 million in quarterly free cash flow to be sustainable.

Assuming that funds from operations and capital outlays remain consistent with the Q3 numbers, Crescent Point should be able to cover the new dividend without having to tap its line of credit.

Hedging concerns

Crescent Point has more than 50% of its 2015 production hedged at \$88/bbl, but that is going to drop next year. In the most recent update, the company said it has about a third of 2016 output hedged at \$83/bbl.

Oil prices

Crescent Point says it can cover its cash flow commitments as long as WTI oil remains above \$40 per barrel. The market is trending close to that level right now, but pundits are all over the map when it comes to predictions for next year. Some reports are calling for a fall below \$30, while others say a rebound in 2016 will push WTI back above \$60.

Balance sheet

Crescent Point finished the third quarter with \$4.4 billion long-term debt. The company remains well within its allowable ratios and has about \$1.4 billion in unused credit facilities.

Should dividend investors buy?

If you believe oil prices are at their bottom, Crescent Point's dividend is probably safe, but that is a brave call to make right now.

The reduced hedging position in 2016 makes the company's cash flow more susceptible to a drop in oil prices and a sustained WTI move below \$40 would probably put the distribution at risk.

Crescent Point certainly has a lot of upside potential if oil prices recover, but dividend investors might want to look elsewhere for reliable yield.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:VRN (Veren Inc.)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/09/08

Date Created

2015/11/25

Author
aswalker

default watermark

default watermark