Will Crescent Point Energy Corp. Cut its Dividend in 2016?

Description

Back in August, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) made a painful decision: the company slashed its monthly dividend from $0.26 down to $0.10. The move was certainly unpopular among many of its shareholders, but it was necessary to preserve the balance sheet. It was the company's first dividend cut in its 14-year history.

Now, as we head into 2016, the company's shareholders are wondering if another dividend cut is in the cards. After all, Crescent Point's dividend yields more than 7%, which indicates that investors are somewhat skeptical.

So what exactly should we expect?

The ideal scenario

In Crescent Point's latest investor presentation, the company outlines two broad scenarios. The more optimistic one features an oil price of US$60 per barrel (which is a sign of how far oil has fallen).

With US$60 oil, Crescent Point would generate roughly $2.2 billion in cash flow from operations. After deducting capital expenditures, this would translate into nearly $1 billion in free cash flow. That would easily be enough to cover the $600 million in annual dividend payments.

What about US$40 oil?

With oil prices languishing under US$40 per barrel, it's unrealistic to expect an *average* price of US$60 next year. For that to occur, the price of oil would have to exceed US$60 for much of the year.

Using an average price of US$40, the dividend becomes a lot harder to fund. Cash flow from operations would total only $1.5 billion, translating into $380-500 million in free cash flow. And for every US$1 change in WTI, Crescent Point's cash flow decreases by roughly $30 million (assuming a constant exchange rate). So if the oil price decreases much further, you can kiss the $0.10 monthly dividend (or at least part of it) goodbye.

That said, Crescent Point does have an ace up its sleeve. The company has contracted to sell 10% of its 2017 production at $81 per barrel, well in excess of market rates. These contracts now have significant value. Thus, Crescent Point could theoretically sell these contracts for a hefty sum, which would help support the dividend. Alternatively, the company could simply move these distant contracts into 2016.

However, doing something like this would leave Crescent Point in a vulnerable position heading into 2017. And if oil prices don't recover by that time, then the dividend would have to be slashed again (or eliminated altogether).

Not an ideal dividend stock

As would be expected, the fate of Crescent Point's dividend is entirely dependent on oil prices. Thus, this isn't so much a dividend stock as a bet on oil. If you're looking for steady income you can count on, there are certainly better options.

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