



## Crescent Point Energy Corp.: Is it Time to Back Up the Truck?

### Description

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) used to be a favourite pick among dividend investors, but an 18-month slide in the stock from \$45 per share to \$15 has investors giving the name a wide berth.

There's good reason to stay away.

Troubles continue to persist in the oil patch as the game of chicken between Saudi and American producers is lasting much longer than expected. This is putting greater pressure on oil prices, and producers that have relied on strong hedging positions to ride out the storm are beginning to feel the pinch.

Crescent Point is a perfect example. The company was able to maintain its legendary dividend right up to August of last year because it had more than 50% of its production hedged at very high prices.

With markets crashing and no recovery in sight, Crescent Point was forced to trim the monthly payout from \$0.23 per share to \$0.10 per share.

The payout still offers a yield of nearly 8%, and investors are wondering if the distribution will be cut again.

### Is the dividend sustainable?

Crescent Point has 33% of 2016 production hedged at CAD\$83 per barrel and 10% of 2017 output hedged at CAD\$81 per barrel. That is a lot lower than previous years, but it will still help.

The company says it needs WTI oil to average US\$40 per barrel to meet its capital program and cover the current dividend payout without putting too much pressure on its credit lines.

At current prices, the medium-term outlook isn't great for the distribution. If oil manages to drift back up to US\$45 or better, the payout is probably safe. Otherwise, the dividend could be at risk by the end of the year.

### **An opportunity to buy?**

The darkest days of the market are often the best times to pick up stocks. The trick with energy names is that nobody knows whether or not the bottom has been reached.

Crescent Point is one of the more attractive players in the industry. The company focuses on high-quality, oil-in-place plays as well as natural gas. Production costs are low, and management has a great track record of building reserves through strategic acquisitions and successful drilling programs.

Output has increased every year for more than a decade, and the company has about 12 years of drilling inventory lined up on its properties.

The potential for gains is huge, but more pain might be on the way before the market turns.

I wouldn't back up the truck just yet, and any investment should be based on the long-term value of the resources as opposed to a bet on the fat dividend.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Energy Stocks
2. Investing

### **Date**

2025/09/08

### **Date Created**

2016/01/06

### **Author**

aswalker

default watermark