



## Don't Trust Crescent Point Energy Corp.'s 9% Dividend

### Description

Like many of its peers, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is in survival mode. Oil has fallen to under \$35 a barrel, and the company posted a \$240 million loss last quarter. Over the last 12 months shares have declined nearly 50%.

In response to lower prices, Crescent Point has slashed capital expenditures (the amount it spends on oil projects). This year spending is expected to be between \$950 million and \$1.3 billion. That's 16-39% lower than last year. While this should save enough money for the company to stay solvent, it's causing production growth to be the smallest it has been in a decade.

It seems that Crescent Point management would rather save the capital to fund its dividend, which costs the company over \$600 million a year.

At about 9%, many income investors may be tempted to buy shares, hoping for more upside if oil prices improve. As we'll see, that outsized yield may not be very reliable.

### Putting everything on the line

When earnings turn negative, it's typically the dividend that is first to be cut.

By keeping the dividend payment so high while experiencing negative earnings, Crescent Point is making it very difficult to continue boosting production or to pay off its massive debt load of about \$2.5 billion. That debt is costing the company almost \$100 million a year in interest expenses.

The company's strategy is a bit confusing. It has a database of 7,500 locations where it would like to drill, and with lower capital spending this year, only 630 wells are planned for 2016. Limiting production growth seems consistent with the expectation that oil prices will stay lower for longer. If this were the case, however, one would think Crescent Point would lower its debt position to strengthen the balance sheet in preparation for the next bull market. By affirming its high dividend payment, the firm is unable to boost production or pay down debt.

## When hedges roll off, things get much trickier

Regardless of whether or not management believes oil will rise in the short term, the company's financials will start to feel considerable strain if they don't improve by next year.

Crescent Point has been a big beneficiary of previous hedging actions by management. This year over a third of production is hedged at over \$70 a barrel. This is an incredible advantage as the company can sell a considerable amount of oil for a 100% premium. This is one of the biggest reasons why Crescent Point can continue paying out \$600 million a year in dividends. By 2017, however, only 11% of production is hedged. By 2018, that number is only 6%.

If oil doesn't improve dramatically by then, the security of the dividend will be severely in question. The only way it would be sustainable would be to tack on more debt or sacrifice long-term production. Both of these options would destroy value for shareholders, even if the company is somehow able to maintain its dividend.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

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

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