Will Crescent Point Energy Corp. Be the Next High Yielder to Cut its Dividend?

Description

When entering 2016, **TransAlta Corporation** and **Potash Corporation of Saskatchewan Inc.** were the two highest-yielding stocks on the **S&P/TSX 60**. They both cut their dividends in January.

As a result, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is once again in the top spot on this list with its yield of 8.2%. It's a position the company is very familiar with.

So that brings up the obvious question: Will Crescent Point cut its dividend?

How likely is another cut?

Crescent Point has already slashed its dividend once this year. Back in August the monthly per-share payout was reduced from $0.23 to $0.10. And when looking at the numbers, it's clear why investors are expecting another cut.

According to its most recent investor presentation, Crescent Point would have a payout ratio of 100% assuming an average WTI oil price of US$40 this year. Unfortunately, even this scenario now seems optimistic and is well above current strip pricing.

It gets worse. This scenario "includes the expected impact of monetizing 2017/2018 oil and gas hedges in 2016." If Crescent Point were to actually do this, it would leave the company more exposed to energy prices in future years, and this kind of strategy is certainly not sustainable.

At this point, Crescent Point would be better off abandoning its dividend altogether. It would allow the company to spend more money on capital projects at a time when labour and equipment costs are depressed. Or the company could buy back stock at a depressed price or repair its balance sheet. All of these options would be a better idea than a dividend that is unsustainable.

Is this a bet worth making?

If you're looking for dividend stocks, there are certainly better options than Crescent Point. You'd have to accept a lower yield, but that's a small price to pay for some piece of mind.

And if you're looking to bet on oil prices, again, there are better options. After all, if you want to make an oil-price bet, why choose a company that pays such a high dividend, especially one that the company cannot afford?

Besides, Crescent Point has already shown it is very willing to cut its dividend. So there's a good chance the company will do so at its next earnings announcement. I wouldn't want to be a shareholder when that happens.

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