2 Companies That Would Be Better Off Without Their Dividends

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) and **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) are two of the highest-yielding stocks in Canada. Yet both of them share another thing in common: they would be better off without a dividend at all. We take a closer look why below.

Crescent Point

As oil prices continue to languish, Crescent Point has a few advantages over its North American peers. First of all, the company has a very strong hedging program in place with more than a third of 2016 production hedged at prices above $80 per barrel (in Canadian dollars). Crescent Point can also shift an estimated $130 million of hedging gains into 2016 if oil prices stay depressed.

Secondly, Crescent Point's wells are primarily located in the Canadian Bakken, which has some of the best economics of any oil play in North America. One of the main reasons for this is the low Canadian dollar, but favourable geography and royalty rates don't hurt either.

Finally, Crescent Point has a reasonably strong balance sheet with just over $4 billion of net debt (as of September 30). That's just over half of the company's market value, which is a lot less than many other energy companies.

Yet Crescent Point is still cutting its capital budget for 2016 by 16-39%. While this isn't unexpected (Crescent Point is still an energy company), it is a shame, since now is a time when capital costs are extremely low. In fact, the company only has to spend about $20,000 to add a new daily production. Such a number would have been unthinkable two years ago.

There are other great ways for Crescent Point to spend its money. The company could make a cheap acquisition. It could buy back its own shares. Or it could pay down debt. Any one of these actions would set the company up extremely well for an energy rebound.

But Crescent Point has placed a high priority on its dividend, which will likely consume any free cash flow the company generates this year. All of those opportunities will likely go to waste.

Potash Corp.

Like Crescent Point, Potash Corp. is struggling with low prices for its product, and the company has cut back significantly in response. Most recently, the company suspended its New Brunswick operations last month and also cut its dividend.

Yet Potash Corp.'s dividend still yields north of 6%, which means investors think another cut is coming. And there is good reason for skepticism–the dividend will absorb all of the company's free cash flow.

Potash Corp. CEO Jochen Tilk maintains that the dividend is sustainable. But if that were true, then the shares are underpriced, meaning that a share buyback would be a better use of cash.

To put it succinctly, these two companies may be keeping their dividends as high as possible, but shareholders stand to lose in the process.

CATEGORY

1. Dividend Stocks
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