Crescent Point Energy Corp. Can Survive Low Oil Prices, But Can its Dividend?

Description

In August 2015, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) did what many investors feared—for the first time in its 14-year history, it slashed its dividend by a huge 57% from $2.76 annually to $1.20 annually.

At the time, Crescent Point feared that maintaining its previous dividend could add as much as $500 million to its debt—something it was not willing to do. Crescent Point's large dividend was a key part of its overall strategy to appeal to U.S. investors and grow its shareholder base. Crescent Point's desire to cut the dividend shows how committed it is to its balance sheet.

With oil prices currently trading around US$30/bbl, Crescent Point could be in a situation this year where maintaining its current dividend will once again add similar amounts of debt to its balance sheet. Could another cut be in order?

If oil averages around $40 per barrel, Crescent Point's dividend is safe

While oil will trade in a big range for the year, it is best to look at Crescent Point's dividend sustainability by looking at if the dividend can be maintained in a bullish and a bearish price scenario. For 2016, especially given record inventory levels and a current global production surplus of well over one million barrels per day, $40 per barrel would be a fairly bullish average for the year.

As early as December, Crescent Point described $40 as its bearish case, but also stated that it would be cash flow neutral at these prices (which means it can afford to both pay its dividend and fund its capital program should prices average $40 per barrel).

This is because Crescent Point has flexibility in its capital budget. Depending on the price of oil, Crescent Point can spend between $950 million and $1.3 billion on capital to drill and complete new wells. In a $40 scenario, Crescent Point would spend $950 million.

Crescent Point also has the option of monetizing its 2017 and 2018 hedges. Crescent Point currently has 34% of 2016 production hedged at about US$60 per barrel (which basically means it can sell its oil at these prices for the year). By monetizing its 2017 and 2018 hedges now, it can essentially sell more oil at higher prices this year rather than waiting until 2017 or 2018. The end result is, Crescent Point would have about $130 million in gains by doing this.

Analysts at **TD** estimate that including hedging gains, Crescent Point would have cash flow from operations of $1.553 billion in 2016 (assuming production of 166, 947 boe/d). Subtracting $950 million in capital expenses from this leaves $603 million, enough to cover Crescent Point's dividend of about $606 million.

At current prices, Crescent Point would be adding to its debt to pay the dividend

If prices stay at current levels, the situation is not optimistic for Crescent Point. In December, Crescent Point stated that US$1 change in West Texas Intermediate crude prices would result in a $30 change in 2016 cash flow.

It assumed that at 166,000 boe/d of production, it would earn about $1.55 billion of cash flow at US$40/bbl, and simple math says that at US$30/bbl, it would earn about $1.250 billion of cash flow. This $1.2 billion would include the $130 million of hedging gains.

If Crescent Point has capital expenditures of $950 million and a dividend of $606 million, at $1.25 billion of cash flow, it would see a shortfall of about $300 million dollars. This shortfall could be larger if Crescent Point produces less, which pushes its debt build close to the $500 million mark, which caused it to reduce its dividend last time.

Does this mean Crescent Point will cut its dividend if prices stay at current levels all year? It is impossible to say, but there is reason to be optimistic. Firstly, Crescent Point can afford to add the debt—it has $1.4 billion of unutilized room on its credit facilities and less debt than its peer group. In addition, there are signs oil is bottoming, so management may be reluctant to cut dividends; doing so would imply that oil will stay at the $30 level for the long term.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date
2025/08/24
Date Created
2016/02/19
Author
amancini