



Will Crescent Point Energy Corp. Cut its Dividend on Wednesday?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) is set to report its fourth-quarter results on Wednesday morning, and all eyes will be on the company's dividend. Will the payout remain in place? Or will we see another dividend cut? And what does that mean for the stock?

The dividend in perspective

Thanks to a dividend cut by **Potash Corporation of Saskatchewan Inc.** in January, Crescent Point once again is the highest-yielding stock on the **S&P/TSX 60** with its payout currently yielding 6.7%. While that's not as high as the 10%+ yields we saw last year, it's a sign that investors are still suspicious about the dividend.

And these concerns are very legitimate. According to an investor presentation last year, Crescent Point's dividend would consume over 100% of free cash flow at US\$40 oil. And once the company's hedges roll off, the dividend will get even harder to maintain, barring a robust recovery in the price of oil.

Should the dividend be cut?

At Crescent Point, the dividend is viewed as sacrosanct, and will only be cut if absolutely necessary. Such was the case in August of last year when the dividend was slashed by more than half.

And it's hard to blame Crescent Point for its strong commitment to the payout. The company's shareholders tend to place a high priority on monthly income, and a high dividend arguably provides at least some support to the share price (which makes acquisitions and capital raising much easier).

That said, Crescent Point probably has far better things to do with its money. One of them is reducing the debt load, which increased by more than \$1 billion through the first nine months last year. Alternatively, if the company is really comfortable with its balance sheet, then now is a great time to drill for oil, since labour and equipment costs are so depressed. Yet another alternative is to buy back stock, which would allow shareholders to benefit even more from an oil recovery.

Where do we go from here?

At this point, I wouldn't invest in Crescent Point. After all, a producer that doesn't pay any dividends will give you more upside to an oil recovery. And if you're looking for safe payouts, then you should look outside the energy sector altogether.

But if Crescent Point slashes its dividend again, the company will have more flexibility. At that point, perhaps the stock will become more appealing. This is worth keeping an eye on.

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