Crescent Point Energy Corp. Cuts its Dividend Again! What Should Investors Do?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) held out as long as it could before cutting its dividend last August, and now the oil and gas producer has slashed the payout again.

Oil woes

Crescent Point is known for its strong track record of maintaining a juicy payout through difficult times.

During the financial crisis, oil plummeted to US$40 per barrel, but Crescent Point held the dividend steady. This was important because the company's business model relied on the ability to issue new stock to finance growth as well as the distribution.

The strategy had always been hotly debated because the company's payout ratio was normally well above 100%.

As oil recovered, the company gained a solid reputation among dividend investors, and management continued to find willing buyers of new stock because the high dividend yield was always believed to be safe.

When oil began its current rout, Crescent Point held its ground, while most of its peers slashed their payouts. Many investors believed the distribution would survive, given the company's track record and the strong hedging positions that were in place to help offset falling oil prices.

Unfortunately, the rout has lasted longer than anyone expected, and Crescent Point decided to cut the beloved monthly payout from $0.23 per share to $0.10 per share back in August.

The move was not a surprise, and the stock actually rose after the announcement.

Dividend investors were shaken but not deterred and continued to buy the stock over the past six months, believing the reduced payout, which still offered an above-average yield, would be safe.

Another cut

Crescent Point just slashed the monthly payout again from $O.10 per share to $0.03 per share. Dividend investors are going to be upset, but other holders of the stock might be all smiles.

Why?

The decision to reduce the payout is a wise one in the current environment because it frees up about $430 million in cash that can be used for strategic acquisitions.

Crescent Point has a long history of buying companies at reasonable prices and boosting reserves through successful exploration. With WTI oil still trading below US$40 per barrel, many struggling companies are now available at fire-sale prices.

This provides Crescent Point with a great opportunity to pick up new assets and position itself for strong growth when oil finally rebounds.

2016 outlook

Capital expenditures for 2016 are being reduced to $950 million, but production is expected to increase slightly to 165,000 boe/d, which means the company should be able to live within its cash flow at an average WTI price of US$35 per barrel.

Should you buy?

If you believe oil is bottoming, Crescent Point is a good way to play a rebound. The company is in no danger of going bust, and investors are looking at some serious upside potential if oil prices recover over the next two years.

Crescent Point says it would generate $600 million in excess free cash flow over and above its capital-spending plans and revised dividend if WTI oil averages US$55 per barrel in 2017. That target is not unreasonable according to some projections, and Crescent Point would rally significantly if things pan out that way.

Risks remain, but contrarian investors might want to consider adding a small position to their portfolios on further weakness in the stock.

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1. Dividend Stocks
2. Investing

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1. NYSE:VRN (Veren)
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