This Is Crescent Point Energy Corp.'s Top Priority for 2016

Description

With the oil market downturn now in its second year, it's shifting the priorities of oil companies. Last year many oil companies focused on reducing costs in order to get the most production out of their shrinking financial resources. That was certainly the case at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), which worked closely with its suppliers to cut its costs by 30%, enabling it to better weather the storm in the oil market.

That priority, however, is changing in 2016. The company is joining many of its rivals to focus on protecting its balance sheet this year above everything else given that oil prices remain weak.

Making adjustments

On the company's fourth-quarter conference call, CEO Scott Saxberg made one thing very clear: the company has shown remarkable strength amid the storm. That's evident by the fact that its capital costs plunged 30% last year, enabling the company to grow its production by 14% year over year despite a significant cut to its capex budget.

That said, with oil prices even lower this year, the company needs to adjust to the current market conditions; the company's priority this year is to "maintain balance sheet strength," according to Saxberg.

In order to do just that, the company has once again revised its capital expenditure budget and its monthly dividend. The capex budget is now set at $950 million, which is at the low end of the range it announced in January and 39% less than what it spent last year.

Despite keeping a lid on spending, the company doesn't anticipate it to impact production, though production is expected to decline from the 176,000 barrels of oil equivalent per day (BOE/d) it produced last quarter to an average of 165,000 BOE/d in 2016, a 6.3% decline, which is pretty moderate compared with a lot of its peers.

The other major cut it's making to protect its balance sheet is the dividend, which is being reduced from $0.10 per share each month to $0.03 per share each month. It's a move the company expects will save

$430 million over the course of the year; this is on top of the 57% cut in the dividend last August.

Strength amid the storm

While Crescent Point has always maintained a strong balance sheet, it's putting an even greater focus on it this year because of the pressure its peers are facing. That's evident by looking at the company's leverage metrics versus those of its peers.

Crescent Point's net debt to funds flow stood at a pretty solid 2.2 times at the end of last year, which is more than half that of peers such as **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), which at the end of last year had a debt-to-EBITDA ratio of 4.6 times.

Penn West's ratio is actually expected to get even worse later this year because oil prices are even lower right now. As things stand, Penn West's leverage ratio will balloon to more than five times by the end of the second quarter, which would cause the company to breach its debt covenants.

Crescent Point isn't facing the same financial stress now that oil prices and its cash flow are lower because it used much less debt prior to the downturn. That's giving the company greater financial flexibility because, unlike Penn West, it can still afford to pay a dividend.

Further, while its production is falling, it's not going down nearly 20% as Penn West's has. In fact, it's that very fate that Crescent Point wants to avoid in the future, which is why it's making its balance sheet the priority now, so it doesn't run the risk of defaulting on its debt covenants should oil prices weaken materially.

Investor takeaway

Crescent Point wants to avoid the fate of its weaker peers by making its balance sheet the top priority this year. By maintaining its relative strength, the company will be in the position to take advantage of opportunities that might appear down the road, such as picking up assets at fire-sale prices from its beleaguered rivals. So, while the company clearly isn't immune to the downturn, it is in much better shape than rivals such as Penn West Petroleum.

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