Crescent Point (TSX:CPG) Is a Falling Knife: 3 Reasons You Should Be Avoiding the Stock Right Now

Description

Not so long ago – just four weeks ago in fact – Canadian energy producer **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) looked like it could be a great deep value play, trading at both the stock's not only 52-week low, but also its more than 10-year lows.

Since then, however, the CPG shares have gone on to lose more than 10% of their value, are down more than 20% since early July, and in the process have blown through the stock's previous technical support levels along the way.

Needless to say, none of these are good signs for investors.

While much of the energy sector has outperformed over the past two-plus years, including names like **Suncor** and **Canadian Natural Resources Ltd,** it has significantly underperformed its peer group, as the company has seemingly falling victim to management's aggressive ways.

It was almost as if Crescent Point's former CEO Scott Saxberg had positioned the company in such a manner that the stars had to align perfectly in order to get the big payoff.

To be fair, if they did, things would look a lot different today, and shares could have gone on to double in value (or more).

However, the reality is that was simply not the case, as it now finds itself being forced to adjust the company's strategy in the wake of lower prices for Canadian oil that have plagued the industry for most of 2018.

One of those adjustments is the recently announced business realignment that will see the company reduce its workforce by as much as 17%.

Expected savings on payroll expenses will hopefully help to free up available cash that can be used to rationalize its current debt load, which currently sits north of $4 billion.

And while that's a move that is probably wise, it also means that the company is now going to be forced to cut back on its capital spending program, pushing its growth agenda farther into the future.

On its September 5 second-quarter conference call, management announced that capital spending in 2019 will be lower than what the company expects to spend this year.

A smaller capital budget in 2019 will along with lower payroll expense assist in the company in its objective of accelerating debt reduction and additionally continuing to support the company's current 4.73% dividend payout.

However, there are after all "no free lunches," and understandably, the decision to pursue a more conservative agenda in the near term at a cost of delaying growth projects that are expected to pay off down the road is more than likely what's got investors looking for timelier opportunities in recent weeks.

Do you need to be concerned about Crescent Point cutting its dividend?

It remains unclear what plans Crescent Point's board of directors has for the company's current dividend payout.

CPG has already been forced to cut its payout twice since oil prices began falling in 2014 – once in 2015 and then a second time less than a year later in 2016.

Crescent Point's current payout ratio — at least in the short term – isn't sustainable. Particularly in light of the recent announcements to prioritize debt reduction, cost savings, and a rationalization of capital spending, one has to wonder how much fuel is left in the tank to support the company's $0.28 annual payout going forward.

It could be that new management group coming in may be motivated to take action and "undo" any past mistakes that have hamstrung the company today, meaning investors currently holding CPG stock may want to tread lightly until new evidence comes forward.

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