

Will Crescent Point (TSX:CPG:) Cut its Dividend for a 3rd Time in 2019?

Description

A read through the press release that accompanied **Crescent Point Energy's** (TSX:CPG)(NYSE:CPG) third-quarter earnings report makes it seem like everything's most certainly on the up and up for the Canadian [mid-cap](#) energy company.

Why then, is CPG stock down 22.5% during the first part of October?

Sure, some of the sell-could be the contagious as most markets have been in the red throughout the month, including the TSX Index, which was down 8.4% heading into Tuesday's trading.

But CPG's losses have far outpaced those of the rest of the market.

Is it cause for concern?

A deeper dive into the numbers reveals – to this author at least – that there is at least some chance that Crescent Point's board of directors may be forced to cut the company's dividend when it reports fourth-quarter results or later in 2019.

If it happened, it would be the third cut to the company's dividend since oil prices began falling back in 2014.

However, if you take the company's latest press release at face value, you probably wouldn't give the idea much consideration.

The company announced it was "pleased" to report third-quarter results, which included \$50 million in operational cost savings.

It also announced that third-quarter production remained on track to meet its full-year 2018 targets, with the budget for capital expenditures this year unchanged at \$1.775 billion.

Yet it forecasts that capital expenditures will likely drop off in 2019 to somewhere between \$1.55 billion to \$1.60 billion.

It also states that it expects free cash flow generation to improve in 2019 relative to the current year; however, it remains unclear whether that has more to do with capex falling off or improving cash flows from operations.

Keep in mind that CPG's realized sales price per barrel was \$80.11, well above the spot price for West Texas Intermediate, the benchmark for U.S. crude.

Canadian crude oil differentials continued to widen during the third quarter, which doesn't help CPG any, though the company was aided by some favourable hedging contracts.

However, some of those contracts are set to roll off next year, meaning that the company will be more exposed to discounted Canadian prices.

Not to mention that it is currently exploring the option to divest certain of its assets.

And while Crescent Point maintains that it will be “disciplined during the divestiture process to ensure appropriate asset values are realized for shareholders” even if that’s true, divestitures will almost assuredly lower its available production base.

With the dividend already nearing the brink of sustainability, one has to wonder what it would take for the board of directors to scrap the payout altogether.

Bottom line

With only 40% of production hedged through 2019 lower oil prices are one obvious potential catalyst for an outright suspension of the dividend.

The fact that the stock trades at a steep discount to the tangible book value it holds on its balance sheet is a very compelling reason to keep following the company in search of a potential turnaround.

At the same time, this is a company with a track record of teasing shareholders with dividend cuts.

“Those who do not learn history are doomed to repeat it.”

That recent history is enough to keep me out of the way of this one for now.

Meanwhile, there are plenty of [other great opportunities](#) in the market right now that are offering significantly more visibility as to what investors can expect around the corner.

Fool on.

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