Will These 3 Stocks Cut Their Dividends in 2015?

Description

Plunging energy prices have shaken up the oil patch.

Many companies have slashed spending and reduced buyback programs. Dozens of firms — including **Lightstream Resources Ltd**, **Bonavista Energy Corp**, **Penn West Petroleum Ltd**, and others — have been forced to cut their dividends.

This could just be the beginning. Many energy stocks now sport double-digit yields. That's a sure sign more dividend cuts are on the way. Here are three stocks that could reduce their distributions in the New Year.

1. Canadian Oil Sands Ltd.

Canadian Oil Sands Ltd. (TSX: COS) has received a harsh lesson in leverage. Squeezing bitumen out of the oil sands is costly, which is why producers operate on lean margins. When energy prices rise, profits can skyrocket. However, when prices fall, this leverage works the other way.

Canadian Oil Sands has already been forced to slash its dividend, but that might not be enough. Assuming US$75 per barrel oil prices, the company is expected to generate $0.35 per share in free cash flow. The problem? Even after the recent cut, the firm has pledge to pay $0.80 per year in dividends.

Based on these figures, Canadian Oil Sands needs to cough up another $218 million over the next year. Debt could plug that hole. However, it would be tough to raise that much cash through the industry's current turmoil. That leaves only one other option — another dividend cut.

2. Teck Resources Ltd.

Teck Resources Ltd. (TSX: TCK.B)(NYSE: TCK) has been hit by a double whammy of tumbling oil and coal prices. The company's falling stock price has left shares yielding over 7%. In the past, this has often been a signal of a coming dividend cut.

However, unlike other companies on this list, Teck's situation is far from dire. The company is sitting on more than $2 billion in cash and has an untapped US$3 billion line of credit. Given Teck's strong liquidity, there is no immediate worry about the dividend.

That said, the company has committed to spend billions of dollars to fund construction at its Fort Hills oil sands project. If commodity prices don't improve through the middle of next year, management might take a serious look at reducing the payout.

3. Surge Energy Inc.

Surge Energy Inc. (TSX: SGY) has been a long-time favourite of income investors. The company was an early adopter of the growth-plus-yield model, promising respectable 5% to 10% production growth combined with a sensible dividend. Everything worked fine when oil prices were over US$100 per barrel.

Today, however, the numbers no longer add up. Based on analyst estimates compiled by Reuters, Surge is expected to earn $0.37 per share over the next year. However, today the company pays investors $0.60 per share in distributions annually — a payout ratio topping 160% of earnings.

Even if you focus on cash flow, the business is not generating enough money to fund its current dividend program. Unless oil prices rally soon, Surge cannot generate enough cash to maintain output and pay shareholders.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:SGY (Surge Energy Inc.)
3. TSX:TECK.B (Teck Resources Limited)

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