2 Dividends That Could Disappear in 2015: Bombardier Inc. and Cameco Corporation

Description

Bombardier Inc. (TSX:BBD.B) and **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) are going through some tough times and both could be forced to cancel their dividends this year.

Here's why the distributions at these two companies could be in jeopardy.

Bombardier Inc.

On January 12, I wrote an article about Bombardier's potential cash crunch. The company had just announced the departure of Ray Jones, its top sales executive in the aerospace division, and the press release said he was leaving for personal reasons. This seemed a bit suspicious considering that he was the second senior sales executive to leave the team in the past 12 months.

The company burned through a ton of money in 2014, and I argued that more bad news in the troubled aerospace division could cause the company to face a cash crunch.

A few days later, Bombardier announced the shutdown of its Learjet 85 operations and warned that revenues were going to fall short of expectations. After the announcement, the market finally clued in that a serious cash shortage could be in the works, and the stock fell more than 30%.

Why could the dividend get cut?

Bombardier's other big aerospace initiative, the CSeries program, is two years behind schedule and way over budget. The latest target date for the first delivery of the jets is the end of 2015. This is important because Bombardier has a US$750 million bond coming due at the beginning of 2016. If the company can't get its planes delivered before the end of the year, it will probably have to raise cash. The reason for this is that airlines normally pay for planes once they are delivered.

Right now, the bond market wants a heavy premium to lend Bombardier more money, and tapping the equity market by issuing shares will be very dilutive given the company's languishing stock price. If Bombardier is forced to go to the market for extra funds, the company could cancel its dividend to minimize the amount of cash it will need to raise.

Cameco Corporation

Cameco has a very different problem on its hands. The company is involved in a nasty battle with the Canada Revenue Agency (CRA) regarding the taxes it pays on earnings derived from a subsidiary based in Europe. Many companies set up offshore operations to reduce the taxes payable in their home countries. Unfortunately for Cameco, the CRA doesn't think the current structure is acceptable and is asking for back taxes covering several years. Cameco says it could be on the hook for as much as $650 million if it loses its fight with the CRA. The case has been ongoing for quite a while, but it could finally be decided this year. If Cameco is forced to pay the full amount that the CRA is claiming, the company could halt its dividend.

Should you buy either company?

Bombardier is a big risk/big reward play right now. If the company manages to avoid raising funds and can deliver the CSeries jets on schedule, there is significant upside potential in the stock. Unfortunately, most analysts think this is unlikely to happen.

Cameco is struggling with low uranium prices, but the company's operations are sound, and the uranium cycle is probably near its bottom. If Cameco wins the CRA case, or settles at an amount that allows it to avoid cutting the dividend, the stock should rally.

Both stocks carry risk, but Cameco is probably a better long-term bet.

CATEGORY

1. Investing

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1. NYSE:CCJ (Cameco Corporation)
2. TSX:BBD.B (Bombardier)
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