Companies That Recently Cut Their Dividends Can Be a Home Run for Investors

Description

Thanks to plunging oil prices, numerous energy companies have had to cut their dividends. And when these dividends get cut, it tends to send share prices plunging even further.

This makes some sense. After all, many investors held these (formerly) high-yielding companies only for their dividend, and when the payout got cut, these investors lost faith and had less reason to hold on.

So that raises an interesting question: Could the plunging share prices of these dividend cutters actually create an opportunity? After all, some of these companies may now be trading well below intrinsic value.

The answer may very well be yes. While appearing on *The Business News Network*, Jeff Evans, Executive Director of Portfolio Strategy & Quantitative Analysis at **CIBC**, argued that stocks tend to outperform the market *after* a dividend cut. So if you're looking to bet on an energy rebound, then you may want to bet on companies that recently cut their dividend. Below we highlight three companies to keep an eye on.

1. Penn West

Let's be frank: there aren't a lot of things to like about **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE). The company has made every mistake imaginable in recent years, such as overzealous expansion, botched execution, poor corporate governance, and even accounting issues.

For a while, however, there was one thing to like about Penn West: its dividend. In fact, the company was the highest-yielding stock on the S&P/TSX 60 for quite some time last year. But in mid-December, Penn West slashed its dividend by nearly 80% and now yields just 4.3%.

All this has caused its shares to absolutely collapse — the stock is down by about two-thirds over the past year, and Penn West has lost its place in the TSX 60. No one wants a piece of the company. Yet with the dividend cut by so much, Penn West has a much better chance of surviving as a company.

We must be honest here: the stock is still extremely risky. But if you're looking to bet on oil, this could be the lottery ticket you're looking for.

2. Lightstream Resources

The story with **Lightstream Resources Ltd.** (TSX:LTS) is very similar to that of Penn West. In fact, Lightstream had a dividend yielding well over 20% a the beginning of this year.

Then the company suspended its $0.18 per year dividend in mid-January, and the stock sunk by nearly 9%. Granted, the shares have bounced back thanks to a modest recovery in the price of oil. But this is still a stock that no one wants to own. So while it's risky, the shares could have massive upside potential if the oil price recovers.

3. Canadian Oil Sands

Canadian Oil Sands Ltd. (TSX:COS) is a perfect example of what *not* to do in today's oil price environment. Faced with low oil prices and an unaffordable dividend, the company cut its payout from $0.35 per quarter to $0.20 per quarter. As it turns out, this wasn't a big enough step.

As a result, the company had to slash its dividend again, this time to $0.05. Now that it has done so, this might be another great opportunity. Again, it's an extremely risky proposition. But if Jeff Evans is right, the odds may be on your side.

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Date
2025/07/22
Date Created
2015/02/09
Author
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