Investors Beware: 3 Great Dividends That Could Be Cut in 2015

Description

2015 wasn't supposed to start out like this.

After years struggling along barely above life support, the Canadian economy was supposed to start recovering. Retirees and income investors were looking forward to it the most, since a recovering economy would likely lead to interest rate hikes. Interest sensitive stocks like utilities, telecoms, and real estate investment trusts (REITs) would go down in value, which would increase the underlying yield.

Now that the price of crude has fallen and the Bank of Canada surprised the market by cutting interest rates, many income investors will be tempted to stretch for yield. While there are some safe dividends in the 6-9% range, it's really easy for an investor to get into trouble stretching for yield. A stable 5% dividend beats an unstable 7% yield hands down, especially if the 7% dividend gets cut. It takes an awful long time to recover from the inevitable share price decline from a dividend cut too.

This is why investors need to keep a constant eye on their holdings, making sure the earnings quality is there. Here are three that are making me nervous these days.

Manitoba Telecom

It isn't just me that's nervous about **Manitoba Telecom Services Inc.** (TSX:MBT) and its ability to service the dividend. Since shares surged to more than $34 each in July — on rumors that it would be the next regional telecom to be taken out — it's been by far the worst performing stock in the sector. Shares have slumped to less than $24, and are offering a 7.3% yield.

It isn't just the dividend that's causing investors to leave the stock. The company's Allstream subsidiary continues to struggle, and pricing pressure is starting to take its toll on the wireless side of the business. Last quarter's results saw the average revenue per user falling more than 5% as the "Big 3" in the sector make a bigger effort to steal customers in Manitoba. Manitoba Telecom has a market cap of just $1.9 billion; it's difficult for a company that size to compete with competitors that are more than 10x bigger.

It appears that Manitoba Telecom will end up being acquired, but likely not before the company cuts the dividend. The payout just isn't sustainable in the long term.

Crescent Point

If the price of oil continues to fluctuate at around $50 per barrel throughout 2015, the latter half of the year may see **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) reevaluate its dividend.

Crescent Point has done a nice job with its hedging program, locking in a price of approximately $90 per barrel for half of its crude production in 2015. But even though its immediate future is still better than most in the industry, it still doesn't mean the company can afford to meet both its capital expenditures and its dividend.

Through the first three quarters of 2014, Crescent Point generated $1.8 billion in cash flow from operations, spending $1.45 billion on capital expenditures. Thus, it generated only $350 million in free cash flow and spent $614 million on dividends in a strong market for crude. 2015 looks to be a little better as management cut capital expenditures, but the company needs oil to increase in order to maintain that generous 8.6% yield over the long term.

Bombardier

The last month hasn't been kind to **Bombardier Inc.** (TSX:BBD.B) shareholders. To make a long story short, the company announced that it may run out of capital by the end of 2015.

The big wildcard is the development of the much-anticipated line of CSeries business jets. If the company can start delivery of the first planes by the latter part of 2015, the increased cash flow will be a big help in shoring up the balance sheet. But if there's yet another delay, the company could be forced to pay high rates to borrow more money, or even worse, declare bankruptcy.

Even before that happens, it's likely the company will take the step of eliminating the $0.03 per share quarterly dividend. Although the stock only yields 3.5%, management can use all the cash it can get to improve its financial situation. Getting rid of the dividend is an easy way to free up $200 million annually.

What's a dividend investor to do?

If you're a dividend investor, read on. We've got three stocks that you can count on to pay through thick and thin.

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