# Could These 3 Companies Be the Next to Cut Their Dividends?

## Description

On Tuesday, **Teck Resources Inc.** (TSX:TCK.B)(NYSE:TCK) reminded us all just how dangerous it is to buy high-yielding stocks. While reporting disappointing first-quarter earnings, the company cut its dividend by two-thirds. In response, the shares fell by nearly 6.5% that day.

So, this begs the question: Which company is next? Below we take a look at three possibilities.

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**1. Crescent Point**

**Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is a favourite among dividend investors and it's easy to see why. The oil producer has a dividend yield of 8.6%, good enough for first place among **S&P/TSX 60** companies.

Crescent Point has not cut its payout for a number of reasons: its balance sheet is very strong; it has low-cost operations; its hedging program has provided a nice cushion.

This doesn't mean the dividend is safe forever. The oil price could easily plunge once again, especially if Iranian sanctions are rolled back. Crescent Point also pays a very generous dividend, one that exceeded net income even when oil prices were higher.

There's another reason the dividend could fall. With the energy sector in such rough shape, now is probably the best time to grow production. Assets can be scooped up for a bargain and input costs (such as labour and equipment) are falling, too. If Crescent Point wants to take advantage, it could divert some of its dividend money towards capital spending. At this point, there is no indication the company wants to do this, but you never know.

**2. TransAlta**

**TransAlta Corporation** (TSX:TA)(NYSE:TAC) has a history of dividend cuts. In early 2014 the power supplier slashed its payout by more than a third from 29 cents to 18 cents. Yet this dividend still yields roughly 6%—only Crescent Point yields more among TSX 60 companies.

TransAlta's earnings can swing wildly—not something you want to see from a big dividend payer. From 2011 to 2014 annual income swung from $305 million in 2011 to a $583 million loss in 2012, followed by a $33 million loss in 2013, and then a $182 million profit last year. CEO Dawn Farrell has acknowledged this volatility: "Some investors see the company as a utility with predictable regulated assets when it's not."

More recently, the news has been encouraging. The balance sheet is stabilizing, the earnings outlook is improving, and the long-term fundamentals are promising. Yet if history is any guide, this could all change very quickly.

**3. Cenovus**

Getting back to energy companies, **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) was having some difficulties even before the oil rout. More specifically, its Foster Creek operations have been showing signs of age, causing production and cost numbers to disappoint. Low oil prices have only made the situation worse.

In response, Cenovus has slashed its spending plans and staff levels. But the dividend has remained intact and now yields 4.7%. Could a dividend cut be coming?

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In the short term, the dividend looks safe. Cenovus raised $1.5 billion earlier this year to cover any cash shortfalls, and its spending cuts are making a big impact. But if the oil rout persists, or worsens, dividend investors should remember what happened with Teck Resources.

**CATEGORY**

1. Dividend Stocks
2. Investing

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1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:TAC (TransAlta Corporation)
3. NYSE:VRN (Veren)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:TA (TransAlta Corporation)
6. TSX:TECK.B (Teck Resources Limited)
7. TSX:VRN (Veren Inc.)

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