Will These Great Dividends Survive 2016?

Description

Many investors count on dividend-paying stocks for their retirement.

Some have enough saved up so they can live on dividends that are only 2-3% annually. Others haven't been as lucky, which leaves them with a few options. They can either choose to live with less income, sell shares periodically to get a higher income, or invest in riskier securities that pay higher yields.

Obviously, each of these choices comes with increased risk, especially the stretching for yield part. Many investors have gotten hammered doing just that so far in 2015, as former high-yield darlings such as **Kinder Morgan** have been forced to slash their dividends. No retiree wants to deal with a dividend cut.

Going into 2016, I see some big dividends on the TSX Composite that look especially risky. I'd caution retirees to stay away from the following two stocks and their attractive dividends.

TransAlta

TransAlta Corporation (TSX:TA)(NYSE:TAC) is an interesting value stock. Shares currently trade at a fraction of the net replacement cost of the assets, and the company is soundly profitable, earning $0.64 per share over the last year. Based on the current share price of $4.70, that's a price-to-earnings ratio of just 7.3.

The reason why TransAlta is so cheap is because of its exposure to coal-fired power in Alberta. Approximately 40% of its annual EBITDA comes from coal, a fuel the Alberta government has pledged to eliminate by 2030. TransAlta has already planned to either shut down or switch over existing coal plants to natural gas by 2030 anyway, so such a decision isn't such a big deal.

TransAlta really needs power prices in Alberta to improve. The company has higher prices locked in to contracts for about 80% of its revenue, but it is still getting hurt on the 20% of sales that happen at market prices. With these power purchase agreements starting to come due for renewal in 2018, prices either need to go up or else the new contracts will be signed for a lot less money.

TransAlta currently pays a 15.3% dividend, which is almost covered by free cash flow. Look for the company to slash the payout sometime in early 2016 to free up cash flow to put towards its debt.

Crescent Point

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has already cut its dividend in 2015, slashing its monthly payout from $0.23 per share to $0.10. And if oil persists at $35 per barrel, it'll be forced to cut it again in 2016.

Crescent Point has been able to generate free cash flow thus far in 2015, approximately $200 million worth over the first three quarters of the year. But that's when oil averaged between $45 and $60 per barrel. At $35 per barrel and with only 50% of production hedged going into 2016, it's not going to be an easy year for Crescent Point unless the price of crude recovers substantially.

The current dividend sets Crescent Point back approximately $150 million per quarter. Eliminating it frees up a lot of money that can be used to pay back debt. Although Crescent Point isn't anywhere close to breaching its debt covenants–at least, not yet–it's obvious that $600 million annually in saved dividends would sure help put a dent in the $4.4 billion worth of long-term debt.

Crescent Point should really take this opportunity to pick up distressed assets on the cheap. If crude makes even lower lows in 2016, there is likely going to be a fire sale going on in the energy sector. Money spent now will likely pay enormous dividends in the future.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. NYSE:TAC (TransAlta Corporation)
2. NYSE:VRN (Veren)
3. TSX:TA (TransAlta Corporation)
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Date
2025/08/20

Date Created
2015/12/18
Author
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