3 Big Dividends That Could Get Cut in 2016

Description

This past year dividend investors were taught a very important lesson: don't reach for extra yield. Those who did were repeatedly burned by dividend cuts and falling stock prices mainly from the energy sector.

With that in mind, we take a look at three stocks below that could suffer a similar fate in 2016, so be very careful before adding any of them to your portfolio.

1. TransAlta

TransAlta Corporation (TSX:TA)(NYSE:TAC) has a dividend yielding in excess of 15%, good enough for first place on the **S&P/TSX 60**. That should raise some red flags right away.

And when looking at the numbers, it's clear why TransAlta yields so much. The company has a payout of $0.18 per quarter, which, based on the current share count, works out to $50 million every three months.

Meanwhile, TransAlta's operating earnings totaled only $2 million in the most recent quarter and $52 million through the first nine months of the year. To help pay the dividend, TransAlta sold some of its Australian assets to **TransAlta Renewables**, generating $211 million in cash. Such a strategy cannot last forever.

Worse still, the company is relying on hedging contracts, which are primarily power-purchase agreements, to maintain cash flow in a period of declining power prices. This strategy cannot last either.

2. Crescent Point Energy

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) has already slashed its dividend once this year. Back in August its payout was reduced by more than 50%. But there's still a further chance of a cut.

Of course, the fate of the dividend rests on oil prices. If the WTI oil price recovers to US$55, then the dividend will be perfectly safe and could even be raised down the line. But if settles in the low to mid-$40s, then the company will have to decide between maintaining the dividend and maintaining the balance sheet.

3. Inter Pipeline

Pipeline companies tend to be great dividend payers. After all, they generate revenue from stable, long-term contracts. And since they operate critical infrastructure, they typically make very steady income.

But **Inter Pipeline Ltd.** (TSX:IPL) has a sky-high dividend, one that yields over 7%. Once again, it’s easy to see why the yield is so high–Inter’s dividend exceeds both its net income and its free cash flow.

Making matters worse, Inter Pipeline has nearly $5 billion in debt compared to less than $3 billion in shareholders’ equity. This could put a serious strain on the company in 2016 and beyond, especially as demand for pipelines starts to wane.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:VRN (Veren)
3. TSX:TA (TransAlta Corporation)
4. TSX:VRN (Veren Inc.)

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