



Will These 3 Stocks Cut Their Dividends in 2016?

Description

Having a stock cut its dividend can be devastating to a retiree.

Say you owned 10 stocks with each paying an average of 4% annually. One stock cutting its dividend 50% reduces the total payout of the portfolio by 5%. For someone without a whole lot of excess capital, one dividend cut might be the difference between going on a vacation and staying home.

There are ways to minimize this risk. Investors can spread their exposure out among many different companies, which means one or two dividend cuts won't be so bad. They can also load up on stocks with dividends that are safer, although these companies usually come with lower yields. And investors can be selective about any higher yields they put in their portfolio, researching extensively to ensure these dividends are safe.

Finally, they can avoid companies that look like obvious candidates to slash their dividends. Here are three such stocks.

Crescent Point

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) used to be one of the most hyped companies in the whole sector. Investors liked its aggressive expansion plan, its focus on low-cost production, and the great dividend.

Then the price of crude collapsed, and Crescent Point fell right along with it. Investors suddenly woke up to the fact the company hadn't earned enough free cash flow to cover the dividend in years; it relied on issuing equity and debt to make up for the shortfall. A few months later the inevitable finally happened, and the company's sweet \$0.23 per share monthly dividend was cut to \$0.10.

As oil hovers around US\$30 per barrel, Crescent Point is in danger of having to cut the dividend again. Free cash flow will likely be down compared with 2015 because many of the company's hedges are expiring. Debt levels are creeping ever higher, too. This translates into a situation where investors would rather see the \$150 million paid in dividends each quarter put towards shoring up the balance sheet.

Torstar

Torstar Corporation ([TSX:TS.B](#)) is the owner of *the Toronto Star*, Canada's largest daily newspaper when measured by circulation.

The company has been busy reinventing itself. Management knows the newspaper business is in a secular decline, so it has been investing heavily in expanding its digital presence. It owns stakes in some of Canada's biggest websites, including Shop.ca, Toronto.com, and Workopolis. It also recently spent \$200 million to acquire 56% of VerticalScope, a company that owns more than 600 online forums and premium content sites.

This might be good for Torstar's future, but it's bad news for the company's generous \$0.13 per share quarterly dividend. Through the first nine months of 2015, it posted a negative free cash flow of about \$8 million, while paying out more than \$31 million in dividends. With the new acquisition only slated to add some \$20 million in EBITDA in 2016, Torstar's 21.4% yield looks to be in serious jeopardy.

Liquor Stores

There are a few issues with **Liquor Stores N.A. Ltd.** (TSX:LIQ).

More than 70% of its locations are in Alberta, a market that is dealing with a poor economy and increased competition. And liquor stores are one of those businesses that regular people will always try for themselves, since they don't take much capital to get going and offer the potential for steady sales.

The company is working on expanding its footprint in the U.S. with locations in Alaska, Kentucky, and most recently, New Jersey. The lower exchange rate is helping revenue from these stores when converted back into Canadian dollars, but it's not flowing to the bottom line. In the company's most recent quarter net profit fell some 20% compared with the same period last year.

From a free cash flow perspective, things look even worse. Liquor Stores generated approximately \$16 million in cash from operations through the first three quarters of 2015, but had negative free cash flow once you account for the \$20 million in capital expenditures. The \$20 million it paid investors during that time was financed by debt issued earlier in the year.

With debt piling up, it's doubtful that Liquor Stores can continue paying its generous 14.7% dividend.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:TS.B (Torstar)
3. TSX:VRN (Veren Inc.)

Category

1. Dividend Stocks
2. Investing

Date

2025/07/04

Date Created

2016/01/29

Author

nelsonpsmith

default watermark

default watermark