2 TSX 60 Stocks Just Cut Their Dividends by 50% or More

Description

The majority of investors think of dividend-paying stocks as "safe havens," but what many fail to remember is that dividends are not guaranteed. Companies must still generate enough cash flow to be able to make their dividend payments, and when they can no longer do so, they are forced to reduce or suspend their dividends, which is exactly what two of Canada's largest energy companies had to do in the last week.

Let's take a closer look at these dividend cuts to determine if the companies made the right moves and if their new rates can be sustained going forward, then decide if we should consider buying their stocks today or if we should avoid them indefinitely.

Arc Resources Ltd.

Arc Resources Ltd. (TSX:ARX) is one Canada's largest conventional oil and gas companies with total production of more than 114,000 barrels of oil equivalent per day in 2015.

In its fourth-quarter earnings report on February 10, it announced a 50% reduction to its dividend to $0.05 per share monthly, or $0.60 per share annually, and this brings its yield down to about 3.3% at today's levels.

The company noted that this reduction was made in order to "maintain a strong balance sheet" in today's low commodity-price environment, and it went on to state that it believes that this reduction and a reduction to its capital budget in 2016 will allow it to "continue to create value for shareholders, and emerge from this cycle in a position of financial strength."

Although I think the 50% reduction was a bit overdone, because Arc Resources generated funds from operations of $2.27 per share in fiscal 2015, which is more than enough to cover its previous dividend rate of $1.20 per share annually, I do think a reduction was needed to ensure the long-term stability of the company and its balance sheet.

Cenovus Energy Inc.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is one of largest integrated oil and gas companies in Canada with total oil production of over 206,000 barrels per day and total natural gas production of more than 440 million cubic feet per day in 2015.

In its fourth-quarter earnings report on February 11, it announced a 68.8% reduction to its dividend to $0.05 per share quarterly, or $0.20 per share annually, and this brings its yield down to about 1.4% at today's levels.

The company noted that this reduction was made to "help preserve Cenovus's financial resilience during this prolonged period of low oil prices," and this is almost identical to what was said when it announced a 39.9% reduction to its dividend in July 2015.

Although I think the 68.8% reduction was overdone, because Cenovus generated cash flows of $2.07 per share in fiscal 2015, which is more than enough to maintain its prior dividend rate of $0.64 per share annually, I do think it was necessary to ensure the long-term stability of the company and its balance sheet.

Should you consider buying one of these dividend cutters today?

I would not consider buying Arc Resources or Cenovus Energy, because there are too many companies out there that have higher yields, extensive track records of raising their dividends, and cash flows to support further increases in the future to settle with either of these dividend cutters.

Instead, Foolish investors should take a closer look at great dividend stocks like **Fortis Inc.** or **Canadian Utilities Limited** for an investment today.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:ARX (ARC Resources Ltd.)
3. TSX:CVE (Cenovus Energy Inc.)

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