3 Stocks That Cut Their Dividends Last Week

Description

Most investors think of dividend-paying stocks as being less risky than non-dividend-paying stocks, 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 support their growth initiatives, and when they can no longer do so, they have no choice but to reduce or suspend their dividends, which is exactly what three companies did last week.

Let's take a closer look at these dividend cuts and the reasons the companies gave as to why they made the cuts, and then decide if we should buy or avoid their stocks today.

1. TransAlta Corporation

TransAlta Corporation (TSX:TA)(NYSE:TAC) is one of the largest power generators and wholesale marketers of electricity in Canada, the United States, and Australia.

On February 16, it announced a 77.8% reduction to its dividend to $0.04 per share quarterly, or $0.16 per share annually, and this brings its yield down to about 2.7%.

In its fourth-quarter earnings report on February 18, the company noted that this reduction was made to strengthen its balance sheet and to bring its payout ratio to about 15-18% of its estimated comparable free cash flow in fiscal 2016. It also stated that this move should prevent it from having to raise additional equity in 2016.

2. Dream Office Real Estate Investment Trust

Dream Office Real Estate Investment Trst (TSX:D.UN) owns 166 properties in urban centres across Canada that total approximately 23 million square feet of gross leasable area.

In its fourth-quarter earnings report on February 18, it announced a 33% reduction to its dividend to $0.125 per share monthly, or $1.50 per share annually, and this is effective for its February distribution and brings its yield down to about 7.6%.

The company noted that this move was made to preserve its strong balance sheet, provide flexibility in the execution of its strategic plan, bolster its liquidity position, and bring its payout ratio to about 67% of its projected adjusted funds from operations in fiscal 2016.

3. Enerplus Corp.

Enerplus Corp. (TSX:ERF)(NYSE:ERF) is one of the leading producers of crude oil and natural gas in North America.

In its fourth-quarter earnings report on February 19, it announced a 66.7% reduction to its dividend to $0.01 per share monthly, or $0.12 per share annually, and this is effective for its April dividend and brings its yield down to about 3%.

The company noted that this reduction was made in order to protect its balance sheet and to maintain its financial flexibility, and that this was a direct result of the low commodity-price environment.

What should you do with these stocks today?

I would not consider buying TransAlta or Enerplus today, because there are too many companies in the energy sector that have higher yields, extensive track records of raising their dividends, and cash flows to support further increase in the future, such as **Fortis Inc.**, **Enbridge Inc.**, and **Suncor Energy Inc.**, to settle with either of these dividend cutters.

I would, however, buy Dream Office REIT today, because I think its reduction will allow it to make acquisitions to drive growth, because I think its new rate can be sustained over the long term, and because it still has a very high yield of about 7.6%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ERF (Enerplus Corporation)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:D.UN (Dream Office Real Estate Investment Trust)
4. TSX:ERF (Enerplus)
5. TSX:TA (TransAlta Corporation)

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