

Will These 3 Dividends Survive the Rest of 2016?

Description

It's every dividend investor's worst nightmare. Yes, I'm talking about the dreaded dividend cut.

A trained investor can see dividend cuts coming. Most of the time a company simply won't earn enough to cover the payout. Or if it does, the payout ratio will be 90-100% of earnings, which is obviously pretty risky.

Another big risk is when a company pays out an extra-large dividend, while competitors have smaller payouts. Eventually, those payouts tend to come together, whether it's from an improvement in the share price or a cut in the dividend.

Here are three great dividends that are at risk of being cut sometime this year.

IGM Financial

IGM Financial Inc. ([TSX:IGM](#)), the parent company of Investors Group, one of Canada's largest wealth managers, is a company I have mixed feelings about.

I owned the shares for years. I liked the company's focus on the retail investor and its dominant position in that market. It sure seemed to me that the company's moat was sustainable.

And then ETFs came along. Suddenly, it became pretty obvious to many investors the high-fee mutual funds pushed by Investors Group salespeople weren't a very good deal. Canadian regulators also took notice, passing new rules which state that an investment advisor must now disclose any fees from an investment in actual dollar terms, not as a percentage of assets.

These two trends scared me out of the stock. I sold at about \$50 per share back in 2014, which turned out to be a nice move. IGM shares trade hands today at \$35 each.

These days, many investors are attracted to IGM's succulent 6.4% dividend yield. Although that dividend is supported by earnings, there are still reasons to get nervous. A continued loss of assets under management could put the earnings at risk. And the company has really levered up the balance sheet, owing \$8.4 billion in debt. It only owed \$6.2 billion at the end of 2012, yet earnings are only up marginally.

Crescent Point

Crescent Point Energy Corp. ([TSX:CPG](#))([NYSE:CPG](#)) already cut its dividend once in the middle of 2015. It's poised to do so again.

With crude at \$30 per barrel, there's simply no way the company can generate enough cash flow to pay the dividend, the interest on the debt, and have enough over to fund capital expenditures. Something has to give, and the easiest thing is the dividend.

There are actually a lot of reasons to like Crescent Point at today's levels. The company is sitting on billions of dollars' worth of light sweet crude with low development costs. When crude recovers, those assets are going to look fantastic. The company also has a competent management team, a strong balance sheet, and no need to go nuts acquiring additional reserves.

Crescent Point had more than 70% of its production hedged going into 2015. These days, only 34% is hedged, at prices much lower than a year ago. Unless oil recovers in a big way very quickly, these hedges won't be enough to support the dividend.

What's interesting about Crescent Point is that many pundits think shares will actually go up if the dividend is cut again.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) has some nice assets. It's Quebec's largest landowner with 564 retail, commercial, and industrial properties mostly located in the province. It also has property in Ontario, Atlantic Canada, and Alberta.

Cominar's issues are two-fold. It borrowed aggressively to fund a big acquisition back in 2014, taking on debt that's coming back to haunt it. And a somewhat tepid economy in Quebec is slowly bringing down occupancy, increasing the company's payout ratio at the same time. For the first three quarters of 2015, the company had a payout ratio of more than 95% of adjusted funds from operations. That's too high.

Management is taking steps to try to be able to afford the company's \$0.1225 per share monthly dividend, which works out to a yield of 9.6%. They suspended the slow dilution caused by the dividend-reinvestment plan. And interest costs should slowly go down as the company refinances some older debt at a lower rate.

I'm not sure it'll be enough. A dividend cut will free up cash that can be put to better use.

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