Can You Count on These Great Dividends?

Description

A dividend cut is something no investor wants to see.

It doesn't matter what kind of investor you are. A value investor likes getting paid to wait for a company to recover. A growth investor doesn't mind a lack of a dividend for the sake of price appreciation. And a dividend investor sees a payout cut as the ultimate act of betrayal, and will likely punt a stock the moment such a thing happens.

Besides, slashing a dividend usually sends a very clear sign to the market about a company's health.

Learning to spot dividend cuts before they happen isn't easy, but investors who know what to look for can make pretty educated guesses about the health of a dividend.

Here are three companies with dividends that are at risk.

IGM Financial

It's tough to be one of the biggest mutual fund sellers in a world where everyone loves ETFs and cares about fees.

IGM Financial Inc. (TSX:IGM) is the parent company of Investors Group, an army of 5300+ consultants who sell mutual funds, insurance, mortgages, and other financial products. Like any good financial company, Investors Group makes it simple for investors to have all their financial products in one place.

But cracks are beginning to show in this armor. Money under management, a key metric for the industry, continues to slowly creep down even as the market goes higher. Outflows are taking place for the exact reason you'd expect–customers are switching to lower cost products not offered by Investors Group.

That being said, the company still has a fairly lucrative business. Earnings came in at $3.00 per share in the last year, easily enough to cover the dividend of $2.24 per share.

While the company can afford the dividend, the issue is whether it should pay it. Shares yield 6.3%, one of the highest yields on the TSX. Cutting the dividend would free up millions that could be put towards moving the company towards a lower-fee business model. It would be painful for current shareholders, but likely the best long-term move.

Potash

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) has already cut its dividend once in the past year, slashing the US$0.38 per share quarterly payout to US$0.25.

The company is still facing numerous issues. Potash prices are weak as new supply floods the market. Energy companies aren't paying Canadian farmers much in royalty payments, cash that was being used for input costs. And many crop prices are down across the board, another issue for farmers.

Earnings were US$1.16 per share over the last year, enough to cover the dividend. But according to analyst expectations, earnings will be much lower going forward. Consensus estimates are for the bottom line to be US$0.70 per share in 2016, US$0.85 in 2017, and US$0.77 in 2018.

Potash will likely have the free cash flow to be able to afford the dividend–barely. But the company also has more than US$4.5 billion in debt and almost no cash. It's easy to envision a future where the dividend gets cut again and we see it divert some of that cash to paying down the debt.

Torstar

To put it simply, **Torstar Corporation** (TSX:TS.B) has no business paying out a dividend. It lost $5.63 per share over the last year, although most of that was from one-time write-offs. It also posted negative free cash flow for the first time in more than a decade.

It remains to be seen if the company's big acquisition of 56% of digital media company VerticalScope Holdings will pay off. Torstar paid $200 million for the owner of more than 600 websites. VerticalScope has been growing nicely, but the company paid 12 times EBITDA for its big prize. It hasn't really been enough to move the bottom line.

Although the company only pays a $0.065 dividend each quarter after a 50% cut less than a year ago, look for it to eliminate the dividend completely sometime soon. It simply can't afford the payout.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:TS.B (Torstar)

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