# Why Growth Is More Important Than Dividends

## Description

It's understandable why some investors focus on dividends. Dividend investing is a great way to learn how to invest while getting a return from dividends, which are seen as being more reliable than price appreciation.

However, dividends aren't always reliable. Companies aren't obligated to pay dividends. Ones that pay dividends today could announce a cut or the elimination of dividends tomorrow.



### Negative growth can result in dividend cuts

Examples of dividend cuts or eliminations can be easily found from the energy and mining sectors. For example, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) both cut their dividends in the last few years.

Their profitability is most reliant on the underlying commodity prices of the products they sell. Baytex's business performance depends on the prices of crude oil and natural gas. Barrick Gold's business performance depends on the prices of gold and copper. Those commodity prices are in turn more or less controlled by supply and demand. So, in essence, these companies can't control their profitability.

Between 2012 and 2015, Baytex's cash flow per share declined by nearly 45%, and Barrick Gold's cash flow per share declined by almost 40%. No wonder they had to cut their dividends. Healthy dividends are paid out from cash, after all.

### Even zero growth might not cut it

Between 2012 and 2015, **Dream Office Real Estate Investment Trst's** (TSX:D.UN) funds from operations per share declined by 1.4%. Over the course of three years, that's an average decline rate of 0.5%, which I'll call the zero-growth scenario.

For a while investors thought Dream Office's distribution was safe. After all, it has paid the same distribution per share since 2004. It actually sneaked in a 1.8% increase over the period.

However, come 2016, the office REIT decided to switch its strategy due to its large exposure to Alberta and the slowdown in that province. The company earned about 27% of its net operating income from Alberta.

In February it executed a strategic plan, which included cutting its distribution per share by a third and selling $1.2 billion of its non-core assets over three years to help reduce its debt and strengthen its balance sheet.

So, a dividend company with no growth might not cut it. That is, it *can* cut its dividend as it sees fit. So, investors should watch out for companies with little growth because they could run into obstacles, whatever they may be.

**Conclusion**

The above examples illustrate that growth is more important than dividends. Before buying a company for the dividends, make sure dividends are well covered by the company's earnings or cash flows.

Growing earnings or cash flows lead to dividend growth. The growth protects the current dividend of a company if it pays one. So, it's better to choose a growing company over one that's not growing.

However, a company should not grow through excessive debt, which could spell trouble down the road if the company has trouble meeting its debt obligations. So, buy companies with track records of healthy growth when they're priced attractively and hold them for a long time to build your wealth, and get a growing income from dividends in the meantime.



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1. Editor's Choice

**TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:D.UN (Dream Office Real Estate Investment Trust)

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