
# 3 Canadian Dividend Aristocrats at Risk of Disappointing Investors

## Description



One of the best starting points for dividend-growth investors is to research Canadian Dividend Aristocrats. This list is exclusive to companies that have raised dividends for at least five consecutive years. Streaks are typically defined by dividends paid in a calendar year. So long as the company has paid out more dividends in each subsequent calendar year, its streak remains intact.

Unfortunately, not all Aristocrats are created equal. Every year, there are always a handful whose dividend-growth streak is halted. This is usually the result of a dividend cut or lack of a dividend raise. A couple of examples from last year include **Aimia** and **Home Capital Group**, both of which suspended their dividends as a result of one-time events. Losing this status can negatively impact a company. It can lose its status among funds covering the group, and retail interest will also subside.

With that in mind, here are three companies that are at risk of losing their status as reliable dividend-growth companies.

**Ritchie Bros Auctioneers** (TSX:RBA)(NYSE:RBA)

This one is surprising. Ritchie Bros has a 15-year dividend-growth streak — good for a top-20 placing among Canada's Dividend Aristocrats. The company last raised its dividend in August of 2016, so it's had eight straight quarters of dividend stagnation. Of note, the company pays out its dividend in U.S. dollars.

The company has remained on the list because in 2017, total dividends paid equally $0.68 per share, up from $0.66 per share in 2016. At the heart of Ritchie Bros's issues is declining profits. In 2017, the company earned $0.69 per share, down from the $1.27 it earned in 2015. As a result, its payout ratio has ballooned to almost 100%. Over the long term, this is not sustainable.

Although the company is off to a much better start in 2018, its payout ratio as a percentage of trailing 12-month earnings is still 80%. The company only has two more quarters in which to raise its dividend.

**Intertape Polymer Group** (TSX:ITP)

Intertape is almost a carbon copy of Ritchie Bros. It is another Canadian-listed company that pays out its dividend in U.S. dollars. Intertape has also kept its dividend steady for eight straight quarters, having last raised in August of 2016.

Once again, the company remained on the list in 2018 because it paid out higher dividends over the calendar year. In 2017, it issued dividends of $0.56 per share, up from the $0.54 it paid out in 2016. This is where the similarities end.

At first glance, the dividend appears safe, as Intertape has a respectable 35% payout ratio. The reason for concern is the company's free cash flow (FCF). In 2017, dividends accounted for 115% of FCF, and it hasn't gotten any better. In the quarter ended March 31, 2018, Intertape posted negative operational cash flow. Unless the company turns its cash flow position around in the second half, expect it to drop off the list.

**Pizza Pizza Royalty** (TSX:PZA)

Pizza Pizza is one of those highly coveted monthly dividend payers. Unfortunately, the company's six-year dividend-growth streak is in jeopardy. The company last raised dividends in June of 2016. This has resulted in 26 straight months of a stagnant dividend.



The problem with Pizza Pizza is that it's growing sales at a snail's pace. Since 2010, the company has grown sales by a low compound annual growth rate of 2.5%. So far this year, the company is on pace for flat growth.

This does not bode well for the company's dividend. Dividend-growth companies rely on growing their businesses to support their growing dividends. Pizza Pizza has only five months in which to raise its dividend before it loses its status as a Canadian Dividend Aristocrat.

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**Date**
2025/08/26
**Date Created**
2018/08/01
**Author**
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