



Warning: These 3 Great Dividends Are in Hot Water

Description

Passive income has the potential to truly change your life.

Who couldn't use an extra \$100 per month? It might not seem like much, but it's enough to pay a cell phone or internet bill. An extra [\\$500 per month](#) would most likely take care of your property taxes and house insurance with cash left to spare; \$1,000 each month would easily pay for all your utilities.

An extra \$5,000 per month would allow most people to throw off the shackles of work and do whatever they please.

The basis of any good dividend portfolio is sustainable payouts. A dividend cut is devastating not just because it decreases your income, but also because a stock will usually decline once the cut becomes inevitable. A stock falling 25-50% because of a dividend cut is not uncommon.

You'll want to avoid this outcome at all costs. Here are three stocks that may be in danger of cutting their generous payouts.

IGM Financial

I am not a fan of **IGM Financial Inc.** ([TSX:IGM](#)) and its new direction.

The parent of Investors Group and Mackenzie Financial had a nice business for most of its existence. Selling high-fee mutual funds to retail investors was consistently profitable, and rising stock markets ensured that assets under management kept creeping higher.

But now, most investors realize that fees matter, so assets are moving out of actively managed mutual funds and into cheap exchange-traded funds.

IGM is trying to respond by cutting mutual fund fees and switching its focus from selling mutual funds to financial planning, but that's a hard nut to crack. Competition is especially fierce in the high net worth part of the market, which is exactly where IGM would like to focus.

At this point, the company can afford its generous 6% yield. It earned \$3.12 per share over the last 12 months and its payout is \$2.25 annually. But if you believe earnings are about to fall off a cliff — like I do — then you'll want to stay away.

American Hotel Properties

I own **American Hotel Income Properties REIT** ([TSX:HOT.UN](#)) shares despite thinking the company is likely to cut its 12.3% yield. Why would I do that?

First of all, I like the story. The company has been a growth-by-acquisition monster over the last few years, transforming itself from a budget hotel operator focused on rail workers to having 112 different locations in 32 different states.

Once its balance sheet improves a little the company will be in the position to make more acquisitions.

The stock is also very cheap. Adjusted funds from operations (AFFO) came in at approximately US\$0.63 per unit over the last 12 months, which translates into \$0.83 per share in Canadian currency. The current stock price is under \$7. This gives us a price-to-AFFO ratio of just over eight time earnings.

Unfortunately, the payout ratio is close to 100% of AFFO, putting the 12.3% yield at risk. I believe that the potential for a dividend cut is already priced in and that many investors would welcome cash rerouted from the dividend to paying down debt.

Whitecap Resources

Whitecap Resources Inc. ([TSX:WCP](#)) is an oil and gas producer operating in Alberta and Saskatchewan. The company should produce approximately 70,000 barrels of oil per day in 2019.

The company pays a \$0.0285 per share monthly dividend, which is good enough for an 8.1% yield today. The payout [looks to be sustainable](#) at first glance, but it won't be if crude oil dips significantly.

Whitecap is forecasting funds flow of \$700 million in 2019. After capital expenditures of \$450 million, we have free cash flow of approximately \$250 million. The dividend is in the neighborhood of \$140 million. This leaves some wiggle room.

The only problem is the forecast calls for oil to average US\$59 per barrel for the year. We're a little below that today, and there's no that guarantee crude will co-operate. Whitecap has a hedging program, which helps, but the payout is a little too dependent on commodity prices for my liking.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HOT.UN (American Hotel Income Properties REIT LP)
2. TSX:IGM (IGM Financial Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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Date

2025/08/20

Date Created

2019/07/25

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