Warning: These 3 Stocks Are at Risk of a Dividend Cut

Description

Dividends are great for investors as income or as a nice bonus to any capital gains that are made. Dividends can be especially rewarding when you are holding a stock long term and the company continues to raise it over time.

Naturally, investors will be more drawn to high-yielding dividends, but it's important to understand that the market usually prices dividends that high for a reason.

It's paramount for all investors to do their homework and understand the stability and safety of each dividend before you invest.

Below are three stocks whose investors should proceed with caution, because there is a heightened chance of dividend cuts from them, for a variety of reasons.

The three companies are **Pizza Pizza Royalty Corp** (TSX:PZA), **Surge Energy Corp** (TSX:SGY) and **Cineplex Inc** (TSX:CGX).

Pizza Pizza

Pizza Pizza has been reporting negative same-store sales growth (SSSG) in most quarters for the last few years. This is significant because as the SSSG retreats, Pizza Pizza's earnings have also been pulling back.

This has caused Pizza Pizza to start burning through its cash reserves, to fund the surplus of the dividend that earnings haven't been able to cover the last couple of years.

Since 2016 when the revenue peaked, SSSG has been negative and the company has been earning less. The CEO believes that this is just temporary, and as long as Pizza Pizza can weather the storm for the next while, its reserves can support the shortage in cash to pay the dividend.

However, if the company can't increase its sales, and consequently its earnings within the next few quarters, it will soon have burned through all of its cash reserves and have no choice but to cut the dividend.

It is important to note, however, that because of the structure of Pizza Pizza, and the stability of revenue in its revenue pool of over 750 restaurants, a dividend cut would be slight.

Currently the company pays $0.8556 out in dividends and has trailing 12-month earnings of $0.84. So, in order to cut the dividend to sustainable levels, Pizza Pizza would only need to cut it by less than 5%.

Surge Energy

Although Surge is a quality company, as it's a commodity company, it ultimately doesn't control the price of the goods it sells. Surge may therefore run into problems if global trade concerns continue to affect the price of oil.

In order to sustain its dividend, Surge needs an average price of at least $55 for WTI. The company has thus far managed itself well throughout the oil glut, but the one thing it can't do is control the price of oil.

It's impossible to tell what will happen in the oil markets, but investors should be aware that the price of oil could greatly impact their investment in dividend paying oil companies, as many of us have seen in the past.

Cineplex

Cineplex has been investing a lot the last few years, in order to diversify its business and continue to grow. The company has been building out its ancillary businesses in order to drive a wider variety of customers.

While this has been successful in the rollout, it remains to be seen if it's a trend that will stick or simply just a fad.

If Cineplex can continue to deliver great results, there shouldn't be a problem with the dividend. If, however, Cineplex has some issues, the dividend could be at risk.

Currently with all the investments it's been making, debt has been on the rise. At the same time, the dividend has been outpacing the earnings, which could add up to a cut in the dividend.

It's clear the market is somewhat nervous about Cineplex, as the dividend is yielding roughly 7%.

Bottom line

There are a vast number of reasons why a company may need to cut its dividend. Investors should make sure they are aware of all the financing needs of the company, in order to understand how safe the dividend is, especially if it's a high yielder.

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2. TSX:PZA (Pizza Pizza Royalty Corp.)
3. TSX:SGY (Surge Energy Inc.)

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