This Company Halted Its 8.82% Dividend and Now It's Crashing

### Description

Investors have just had about it with **CannTrust**, now that Health Canada has found the company violated Canada's cannabis regulation laws. Since the non-compliance report by the regulating agency came out last July, the weed stock has fallen by 67.0%, with zero chances of recovery.

And there's a stock from another sector that has also failed investors. Small-cap **Just Energy** (TSX:JE)(NYSE:JE) is a high-yield dividend stock. The utility company hasn't been found to have committed fraud. However, the stock is tanking because management announced the suspension of dividend payments last August.



## Severe backlash

The immediate backlash following the decision to halt dividend payments was seen in a 40.04% drop in the stock price. One month later, Just Energy is down by another 19.93% to $1.98. The suspension is a severe disappointment to investors as the stock's five-year annual dividend yield is 8.82%.

Early in June, Just Energy had been gaining on news that a strategic review was ongoing, which might have led to the sale of this Canadian electric and gas utility company. A strategic initiatives committee was formed primarily to evaluate any available alternatives to unlock shareholder value.

## Bombshell news

Things turned for the worse when the company presented its fiscal second-quarter 2020 earnings report. During the conference call, management said business remained healthy, despite $275.2 million in losses.

Furthermore, as part of the strategic review, the board of directors decided to suspend the common share dividend until further notice. The bombshell news did not sit well with investors, many of whom own mainly because of the high dividend. More so, the prospect of selling the company at a premium seems non-existent.

It’s understandable for investors to dump a company whose losses are almost equal to its market size. And with no more dividends to expect, there’s no reason to hold on to the stock.

## Bigger problems ahead

As of last week, a shareholder’s rights law firm is taking up the cudgels for investors holding Just Energy shares. A class-action suit is imminent to demand recovery of losses for those who bought the stock between May 31, 2018, and August 15, 2019. Expect other law firms to file similar claims against Just Energy.

Most of these law firms smell something fishy regarding Just Energy’s management and proper disclosure material adverse facts about the business. The law firms allege there was a misrepresentation, if not fraud, on issues like customer enrolment, impairment charges, and internal control over financial reporting, among others.



## Dire straits

Since Just Energy’s inception in 2011, the company has paid nearly $2 billion in total dividends. Management would prefer not to suspend dividend payments but feels it is necessary and for the good of the company. Until there is clear progress on strategic and financial initiatives, it cannot create a sustainable dividend policy.

The company’s fiscal third-quarter 2020 is coming. It would take a miracle for Just Energy to report a significant turnaround in two months. I am sure the company won’t be offering a good growth outlook much less strong returns in the future. Thus, as a bit of friendly advice, avoid Just Energy at all costs.

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