This Dividend Stock Just Slashed its Payouts by 75%!

Description

The biggest danger of investing in a dividend stock is that its payouts won't continue. Sometimes it can come without warning while other times there could be hints along the way, including poor earnings results or a very high payout ratio.

In some cases, it can actually have a positive impact on a stock if investors may have been suspicious that a dividend was not sustainable and where cash flow was a concern. But for dividend investors, there's nothing worse than hearing that a dividend has been cut because normally when it happens, it's not a modest adjustment.

That's what happened to investors of **Medical Facilities Corporation** (TSX:DR) recently. The company released its quarterly results in early November, and sales declined 2% from the prior year and net income was down 22%. The company also recorded an impairment charge of $22 million. And with a payout ratio of well over 100%, the company has decided to not only change its dividend payments from monthly to quarterly but the annual dividend will now be $0.28 rather than $1.125.

The news has had a disastrous impact on the stock, with Medical Facilities seeing its share price fall by 40% in the days following the earnings release, and it has now hit a new all-time low. The problem with the stock was that outside of its dividend, there was little reason to consider investing in it. Although the company posted a profit in Q3, the two previous quarters landed in the red.

It's been an inconsistent stock and investors were taking a risk investing in it. It's a reminder of why it's important to always look at a dividend as a bonus, and not let it be the sole reason for investing in a company.

How can investors avoid getting burned by a dividend cut?

As tempting as it may be to lock in a high yield, the safer route often involves going for a more modest dividend. A stock like **Rogers Communications Inc** (TSX:RCI.B)(NYSE:RCI) is a good example of a much safer dividend stock to invest in. With a modest payout ratio of around 50% and Rogers generating free cash flow of $1.5 billion over the past four quarters, the company is in an excellent position to continue paying its dividends.

In addition, Rogers is also a lot more versatile than Medical Facilities in that its operations are much more diversified and it's not reliant on just one key business. That's where Rogers is a good long-term investment even without factoring in its dividend. And that's what makes the stock a good buy, as it offers much more than just a good payout.

Investors may even be able to snag Rogers stock at a deal given that it has fallen by more than 9% year to date. An adjustment to the company's forecast has sent the stock into a bit of a tailspin as its unlimited data plans have proven to be a lot more popular than expected, and that's having a negative impact on its guidance. Nonetheless, over the long term, there's little doubt that Rogers will continue generating strong results.

CATEGORY

1. Investing

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1. NYSE:RCI (Rogers Communications Inc.)
2. TSX:DR (Medical Facilities Corporation)
3. TSX:RCI.B (Rogers Communications Inc.)

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