



Manulife Financial (TSX:MFC) and Inter Pipeline (TSX:IPL) Failed to Raise Dividends: Should Investors Be Concerned?

Description

Dividend growth investors rely on companies to deliver stable and reliable dividend growth. The compounding effect of a rising dividend is the backbone of the strategy. It is for this reason that when companies deviate from the norm, there is an immediate sense of panic.

This past month, two Canadian Dividend Aristocrats: **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) and **Inter Pipeline** (TSX:IPL) failed to raise their dividends. This raised alarm bells and had many investors wondering if their growth streaks were in jeopardy.

Before we dig deeper into each company, however, it's important to note that both are [Canadian Dividend Aristocrats](#). These are companies that have raised dividends for at least five consecutive years.

Manulife only recently achieved this status when it extended its streak to five years in 2018. For its part, Inter Pipeline has a more robust 10-year streak. It's important to note that neither company's streak is in immediate danger, however.

The streaks are based on dollar amount paid out in a calendar year. Therefore, a company's dividend growth streak can still be intact if it didn't raise dividends.

Using Manulife as an example, the insurer last announced a hike in November of 2018 along with third-quarter results. The raise however, didn't take effect until the first payment of 2019. In 2018 it paid out \$0.88 in yearly dividends and this year it will have paid out \$1.00.

Is Manulife's dividend in jeopardy?

The quick answer is not yet. I've already explained how Manulife has paid out more dividends this year than in 2018, and as such, its streak will be extended to six years. Technically, it has the next three quarters in which to announce a dividend before it is at risk of losing its Aristocrat status.

From a numbers perspective, is the dividend safe? It certainly appears that way. The dividend accounts for only 40% of earnings and 13% of operating cash flow. As such, the dividend appears well covered. Consistency in the timing of Manulife's raise has been a question recently.

The company has no discernible pattern, and although it raised dividends last November, it did have a short history of raising dividends along with year-end results in February.

Perhaps this is simply a return to past practice for the company. If it doesn't announce a raise this coming February, investors may have reason to worry.

A high debt load is holding Inter Pipeline back

Inter's decade worth of [dividend growth](#) is an impressive feat. Like Manulife, its streak will be extended by virtue of having paid out more in 2019 than in 2018. Unlike Manulife however, there's reason to be concerned about the safety of the dividend.

Inter Pipeline is in the midst of the largest capital expenditure project in its history: the Heartland petrochemical plant. It's the first of its kind in Canada and is expected to add materially to earnings and cash flows.

Unfortunately, the company has taken on a considerable amount of debt to fund the \$3.5 billion project. By comparison, the project budget is about one third of the company's market cap.

Throughout September, the company has spent approximately \$1.9 billion of the \$3.5 billion, which is a little more than half the project budget.

The good news is that the company has \$1.2 billion in available capacity on its revolving credit facility, and combined with operating cash flows, it should have sufficient funding on hand to complete the project. However, that does mean that cash is tight; the company therefore didn't announce a raise.

As Canada's first integrated petrochemical complex, Heartland will convert locally sourced, low-cost propane into polypropylene. It's an attractive project that will generate considerable cash, and the company has therefore been a takeover target.

Cognizant of the company's tight cash situation, picking up the company at this stage is a predatory move. Management believes Inter Pipeline has the chops to go at it alone, and so far Heartland is proceeding on schedule and on budget. It's certainly worth watching closely.

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