2 Canadian Dividend Stocks to Stay Away From in 2020

Description

If companies are industry leaders, why would you want to stay away from them? Leaders are generally the last ones to recognize a shift in their industries. They have grown to lead their industries because of their proven methods, and when new technology disrupts those changes, they get caught in the low tide. The two companies we are looking at in this column have been hit hard by changes in their industries. To their credit, they have been fighting back, but it might be too early to bet on them.

Cineplex hit by cord cutting

Cineplex (TSX:CGX) owns around 75% market share in the Canadian theatre space, making it the largest operator of theatres in the country. The stock was trading at $53 in May 2017 and has never risen over $35 since November 2018.

As an increasingly large number of movie watchers prefer to stream their content online, it's getting very difficult for old-school businesses to attract people to theatres. Cineplex has added the Rec Room entertainment venues to its portfolio, and another one of its new revenue streams is the digital innovation space. A lot of digital menu boards across restaurants in Canada are from this stream.

Cineplex fans like to point out the over 7% dividend yield of the company. The problem with this dividend payout is that it already costs Cineplex a dividend-payout ratio of 58.8%.

While there is no doubt that the company is fighting the battle hard on all fronts, it might be too early to go all in. For example, the digital segment reported revenues of $20.7 million in the third quarter of 2019 — a surge of 57% since last year. However, the numbers are still small, and it's not yet certain that these new avenues will make up for the dwindling numbers from the core movie and popcorn business.

IGM Financial

IGM Financial (TSX:IGM) handles over $160 billion in assets. Its core business is selling mutual funds to investors for which it charges a pretty hefty fee. The problem with this business is that it is dying, as people are switching over to DIY investing in large numbers.

The number of firms with robo-advisors is growing, and the headwinds for the mutual fund and financial services industry are getting too strong.

While investors who like dividends might go rah-rah over its almost 6% payout, you have to take into account that the dividend yield has gone up, because its shares have fallen from over $45 in October 2017 to under $39 today.

IGM has been making moves to counter the changing times. It has made strategic investments in China Asset Management Company. It knows it could get the rug pulled out from under its feet, as people go the tech way to plan their finances.

It has invested in several fintech companies, including Personal Capital, Wealthsimple and Portag3. IGM invested an additional $67.5 million in Personal Capital in January 2019, a market-leading digital wealth advisor platform offering U.S. investors financial planning tools and fee-based wealth management services.

Will these bets pay off for IGM? Let’s wait for a couple of quarters before diving in.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:IGM (IGM Financial Inc.)

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Date
2025/07/24
Date Created
2019/12/02
Author
araghunath