Alert: These 2 Dividends Could Be Cut in 2020

Description

Income-oriented investors dread nothing more than a sudden dividend cut. It's easy to forget that companies are not obligated to pay shareholders a dividend and can easily suspend their payout when times get tough or the underlying business struggles. If they're not paying attention, investors risk being caught off guard.

With that in mind, here are two seemingly lucrative dividend stocks that could be at risk of a cut in the near term.

Sliced pizza

Pizza Pizza Royalty (TSX:PZA) currently offers a 8.86% dividend yield. Personally, I'm not a big fan of their pizzas, but I must admit that this hefty payout looks absolutely delicious.

It turns out I'm not the only one who avoids this chain. Pizza Pizza has been reporting declining same-store sales growth nearly every quarter since 2016. Total revenue has been nearly flat at roughly $35 million for the past four years. The stock, meanwhile, has been cut in half since it peaked in early 2017.

At the moment, the company has only $3.3 million in cash and cash equivalents on its books and pays out 100% of its earnings in dividends. This means it has little wiggle room if sales continue to stagnate or start declining — a clear red flag for income investors.

While the management team believes the company's struggles are temporary, I'm not so sure. Fast food is a notoriously competitive market with plenty of big players and a limited market. Canadian consumers have plenty of other options when it comes to pizza, so this chain needs a miracle to win them back.

Showtime's over

In a similarly precarious position is theatre chain **Cineplex** (TSX:CGX). Cineplex offers a significant dividend yield: 7.22% at current prices. At that rate, any investment in the stock will double in 10 years *without* any capital appreciation.

If that sounds too good to be true, it probably is. Cineplex currently holds $3.35 in debt for every dollar in equity. That debt burden was adopted by management in an effort to diversify the business. However, this plan doesn’t seem to be effective just yet.

Film, entertainment, and content still account for 74% of the company’s revenue, according to its latest quarterly report. Theatre attendance and box office revenue in Canada has been stagnating for several years, which has been reflected on Cineplex’s balance sheet and stock price. The stock is down 52% since mid-2017.

Meanwhile, the company pays 212% of annual earnings in dividends and only holds $31 million cash. That seems pretty unsustainable for any company. Let alone one in a stagnating industry.

Bottom line

For income-seeking investors, the reliability of their income streams is of paramount importance. Retirees and passive-income earners make long-term plans based on the expected dividend yields from their investments.

The dividend yield tells only part of the story. Sometimes, the dividend overshoots the company’s underlying economics, making the shareholder reward unsustainable. For the two stocks mentioned here, debt and payout ratios are major concerns and could indicate an impending dividend cut.

If you’re seeking a steady dividend, there are plenty of other options.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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