3 Stocks That Cut Their Dividend Payments in 2019

Description

Investing in dividend stocks can be risky. There's no guarantee that a company will continue paying dividends, and if a company struggles or needs to free up cash, it could reduce or even eliminate the recurring payments. Below are three stocks that have either cut or eliminated their payouts entirely in 2019.

Medical Facilities (TSX:DR) was yielding more than 15% earlier this year, and so it shouldn't come as a big surprise that the company ended up reducing its payouts. Although it looked safe from a cash flow perspective, the reality is that it was a very risky dividend stock to own over the long term. Medical Facilities reported a disappointing Q3 in November that saw its revenue decline 2% from the prior-year quarter. And in order to improve the strength of its financials and offer better long-term prospects for investors, it decided that a dividend cut was necessary.

In the earnings release, the company stated that "The corporation believes that the new dividend rate is sustainable given its operations and cash available for distributions." Nonetheless, it's still a tough pill to swallow for dividend investors as the payments will drop from an annual rate of $1.125 to just $0.28. With a payout ratio of over 170% during the past nine months, the writing has been on the wall for the stock.

Dorel Industries (TSX:DII.B) took it a step further when on October 1, the company announced that it was suspending its dividend. The company blames the role that tariffs have played in its operations: "This past May, a second round of increases on Chinese imports, including furniture, bicycles and other goods, brought tariffs to 25%. This is having a much greater impact on the business than the original implementation of 10% introduced a year ago."

Raising prices has not resolved the issue, and given the uncertainty, for the time being, the company has decided that suspending the dividend was the appropriate move to make. However, President and CEO Martin Schwartz did leave the door open for the dividend to return: "It is prudent to suspend the dividend until the chaotic market conditions created by tariffs are normalized."

Although this dividend suspension was a result of externalities, with quarterly dividend payments of

$0.15 per quarter, the dividend yield would still have been around 10% and should have raised flags for investors, anyway.

High Liner Foods (TSX:HLF) announced back in May that the company would be reducing its dividend payments. The move was made to “improve cash flow and allow the company to continue to reduce its debt in 2019.” The company has reduced its dividend payments from $0.145 every quarter down to just $0.05 — a drop of 66%.

At the time, High Liner stock dipped to around $7 per share. The dividend could have been yielding as much as 8.3% if no cut were made to the payouts. Even though the dividend yield was not in double digits, it’s a reminder than anytime a dividend is north of 6% or even 5%, investors should be taking a careful look at the business and whether it is strong enough to continue with its payouts. In High Liner’s case, the company has recorded a net loss in two of its past four quarters, as there were other areas that should have alerted investors to the risks.

High Liner has struggled in recent years, losing around 40% of its value in just the past two years.

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2. TSX:DR (Medical Facilities Corporation)
3. TSX:HLF (High Liner Foods Incorporated)

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