WARNING: 3 Stocks That Could Cut Their Payouts in 2020!

Description

If you're looking for a dividend stock to add to your portfolio for next year, you may want to exercise caution on the following three stocks.

With high yields and some headwinds to deal with next year, they could be risky buys and a dividend cut may not be out of the question for them.

Vermilion Energy Inc (TSX:VET)(NYSE:VET) has a very high yield of around 14%. A dividend cut isn't on the radar for President and CEO Anthony Marino, at least not now as he tried to downplay those concerns earlier this year.

However, if things don't improve in 2020 for Vermilion, it may only be a matter of time before the company doesn't have another hand to play.

Vermilion has recorded a net loss in its most recent quarter, and its sales were down by 14%. With a lot of uncertainty in the oil and gas industry, it would be difficult to rely on a dividend this high in an industry that's still very risky.

The company could slash its dividend payments and still offer a fairly good payout for investors given how high the dividend yield is today.

At the very least, dividend investors willing to take on the risk should monitor Vermilion closely as all it may take is one bad quarter that forces the company's hand, as there's little reason for investors to be bullish on oil and gas stocks in 2020.

American Hotel Income Properties REIT (TSX:HOT.UN) is another stock whose dividend could be in danger. The big reason is that in two of the past four quarters, American Hotel has been in the red and when it hasn't been, its net income has been very thin.

In the trailing 12 months, its net income of US$1.4 million has been under 0.5% of its revenue of US$339 million. Its free cash flow of US$46 million has also been insufficient to cover dividend payments of US$51 million.

With a possible recession and more challenging economic conditions ahead in the U.S., conditions in the tourism industry could worsen, which could result in hotels and motels in the U.S. struggling and lead to further problems for American Hotel.

With a dividend of more than 12%, investors will want to exercise a degree of caution with American Hotel's stock. There's a lot of risk here, and similar to Vermilion, there's room for the stock to cut its dividend and still offer a good payout, which is why I wouldn't be surprised if a reduction does happen in 2020.

High Arctic Energy Services Inc (TSX:HWO) is also in a similar boat to Vermilion, offering a high dividend yield and being in a very tumultuous oil and gas industry.

With monthly dividend payments of $0.0165 per share, annual dividends of $0.198 are right around 10% of the stock's current price. Although it is not as high of a yield as Vermilion's payout, it's still a high dividend rate that investors should be wary of.

High Arctic has recorded a net loss in each of the past four quarters although free cash flow of $14.4 million during that time has been more than enough to accommodate the $9.9 million dividends that were paid out.

The stock is trading at a significant discount at around half of its book value, but the risk involved in the industry is why investors have still stayed away from the stock. The dividend is stable, for now, but it's not one I'd rely on for a long period of time.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:HOT.UN (American Hotel Income Properties REIT LP)
3. TSX:HWO (High Arctic Energy Services Inc)
4. TSX:VET (Vermilion Energy Inc.)

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