TFSA Investors: This High-Yielding Dividend Stock Just Cut Its Payouts

Description

Everyone loves a high-yielding dividend stock, but no one likes it when it cuts its recurring payments. However, that's one of the dangers investors are always going to be taking when they buy shares of a company that's offering a yield that may look too good to be true.

Once you get up to a dividend yield of more than 6%, you should take a close look at a company's financials because if the income and cash flow isn't there to support the dividend, a reduction may be around the corner.

Boston Pizza Royalties Income Fund (TSX:BPF.UN) recently made the unenviable decision of cuttings its dividend payments. On February 13, the company announced that it would be reducing its January distribution from $0.115 to $0.102, a decrease of 11%.

While it's not drastic, and the yield will still come in at a very high 8.7%, it's a haircut that gets the attention of investors and led to selling with higher-than-normal volumes.

The Chairman of the Fund, Marc Guay, said the move was a necessary one given the outlook: "Adjusting the distribution level to align with anticipated future revenues provides the Fund with greater certainty over its ability to sustain distributions into the foreseeable future."

The news comes as the company released its fourth-quarter earnings where same-store sales were down 2.1% — and they were also negative 2.2% for the entire year.

Boston Pizza International President Jordan Holm confirmed that the popular restaurant chain is coming off a tough year, stating that "This quarter and most of 2019 have been challenging for Boston Pizza and the full-service restaurant industry in Canada."

Could there be more cuts?

What's most surprising about the Fund's move to reduce its dividend is that it didn't make a more drastic adjustment. While a double-digit reduction may appear significant, the Fund still pays a fairly high yield.

It could be a sign that the company doesn't anticipate things will get much worse. But the concern for dividend investors is that if Boston Pizza underestimated its challenges, then there could be another dividend reduction next year.

For dividend investors, that's a problem because it creates uncertainty around how much they may be earning a year from now, not to mention the impact that another reduction may have on the stock's price.

Shares of the Fund have already fallen more than 30% in two years, and this news doesn't make it likely that a recovery will take place anytime soon.

Bottom line

For Tax-Free Savings Account (TFSA) holders, this serves as an important reminder as to why it may be wise to resist the lure of a high-yielding dividend stock. If the underlying business is not strong, then the dividend may be in trouble as well.

If you're looking for stocks to put inside a TFSA, it's important to know which ones *not* to put in there as well. As investors won't get the benefit of taking advantage of any taxable losses inside of a TFSA, it's important to stick with safe dividend stocks that aren't volatile or high risk.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)

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