

Market Crash: TSX Dividend Stock Under Threat as Assets Approach Critical Level

Description

Perhaps an elevated 15% annualized yield on **Dividend 15 Split Corp** ([TSX:DFN](#)) stock should be the red flag alerting us to the high risk of a dividend cut. Investors in the high-yield TSX dividend payer should look out for a potential pay-out suspension as the company's net asset value (NAV) per unit nears a critical point during the ongoing market crash.

Dividend 15 Split Corp is a Quadravest-managed mutual fund company that launched in 2004. It generally invests in a portfolio of 15 high-quality Canadian dividend-paying stocks and also uses derivatives to augment the income earned in the portfolio.

It aims to pay a preferred dividend and maintain a \$0.10 per share monthly pay-out to common stock investors.

Fears of a global recession and the outlook for a potentially sustained market crash, induced by the outbreak of the coronavirus (COVID-19), have created significant market volatility. This has put Dividend 15 Split Corp's NAV per unit at risk of decline.

The company calculates NAV per unit by adding the fixed preferred share value and the common share's fairly volatile market price. The two (split) share classes combine to form one unit.

Why should we worry about NAV during a market crash?

Dividend 15 Split Corp's NAV will continue to fall as the share prices of its portfolio investments continue to plunge.

And the fund's prospectus specifies that it will suspend common share dividend payments when the NAV reaches \$15 a unit.

As at February 28, the DFN's NAV per unit had declined by more than 6% in one month to \$16.93, due to a general market rout during the last trading week of February. Shares only have room for another 11.4% decline before the critical number is hit.

As the market sell-off continues, so does the risk that a \$15 critical valuation point could be hit in 2020.

Could the high income pay-out be suspended soon?

The company has a long dividend payment history, and could declare its 192nd consecutive monthly pay-out this month.

Its portfolio has been performing its mandate well since 2004, but good performance over the past 16

long years may not guarantee future returns.

The fund was initially set to provide an 8% annualized yield on common shares. The yield has since risen to 15%, and that's likely not sustainable.

While the value of the preferred shares may remain intact, common equity value in the portfolio may go down with a crashing TSX to trigger the feared NAV threshold.

That said, there's still a chance for the high-yielder to [survive the market crash](#). Not all its portfolio positions are in equities. About 8% of assets was in cash by the end of February, and management writes call options to augment portfolio income. These provide some buffer, but not much downward protection.

Most noteworthy, assets need to decline by a further 11.4% from February's month-end values for the critical trigger point for a pay-out suspension to be hit. That's still too low a trigger point and some margin of safety still remains.

But who knows how hysterical the markets could still get during the course of COVID-19?

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