This High-Yield Stock Just Cut its Dividend: Could These 2 Be Next?

Description

After months of speculation, **Vermilion Energy** (TSX:VET)(NYSE:VET) made it official on Friday, announcing that it would cut its dividend by 50%. The payout will drop from $0.23 per share on a monthly basis to $0.115 per month.

Despite the dividend cut being good news for Vermilion's future, shares still tanked on the news. The stock fell 18% during Friday's trading. The dividend cut will save some $250 million per year — cash that can be spent on share repurchases or additional capital spending.

Part of the reason that shares were so weak is because of weakness in the overall oil market — pressure that could remain for a while. Some investors were also upset that Vermilion kept paying a dividend in the first place, insisting that its cash flow should be put to work in other ways.

The energy market looks to be volatile over the near term, meaning that many investors used the dividend cut as an excuse to exit their positions, putting further pressure on the stock.

Vermilion's dividend cut had been speculated for months. Now that it has finally made the bad news official, which Canadian companies are next?

Let's take a closer look at two additional dividend cuts that could happen sooner rather than later.

Gamehost

Gamehost Inc. (TSX:GH) is an Alberta-based casino and hotel operator. The company owns three casinos in Calgary, Grande Prairie, and Fort McMurray, as well as a couple of hotels. With both energy and travel spending drying up, the company could be on shaky ground.

While I don't have many doubts about its long-term survival — Gamehost's balance sheet is strong, it has a reasonable cash cushion, and it owns good long-term assets — the next few quarters could be particularly ugly. It could burn through its cash reserves quickly, especially if it keeps paying a dividend as operating profits turn into losses.

After all, one of the first things you cut when the economy starts to look bleak is trips to the casino.

Recent weakness in the stock price has pushed Gamehost's yield all the way up to 9.1%, giving management a great excuse to cut the dividend and conserve cash. And remember, Gamehost has put investors though a dividend cut once before, back in 2016. The company could very well do it again.

Chemtrade Logistics

Chemtrade Logistics (TSX:CHE.UN) is in the specialty chemical business, producing materials needed by the refining, water treatment, and pulp and paper industries. It's easy to see how a slowdown in the global economy would impact such a company.

There's little separating one chemical manufacturer from the next; each provides a commodity product with customers caring mostly about price.

Capacity will stay the same as demand for many of these products decrease, which could lead to price wars. The last thing a chemical processor needs is valuable equipment staying idle.

One of the tricky things about Chemtrade's business is the company doesn't have a lot of wiggle room, even during good times. The entire business is built on plants running at full capacity, and gross margins are razor thin.

Chemtrade has also experienced issues over the last couple of years that have weakened the business, including a lawsuit surrounding the practices of a company it acquired. While management has put cash aside to deal with it, there's always the risk these reserves won't be enough.

Chemtrade generated enough cash flow to cover its distribution in 2019, earning $295 million in adjusted EBITDA while paying out just $111 million in distributions.

But a dividend cut looks more likely on a distributable cash flow basis. The company paying out $1.20 per share in distributions while only earning $0.89 per share in distributable cash flow.

Fourth-quarter numbers were particularly weak, with Chemtrade earning just $0.02 per share in distributable cash flow.

Besides, the stock currently yields 14.3%. It's ripe for a dividend cut.

The bottom line

Vermilion Energy will likely be the first of many dividend cuts, especially if any coronavirus-related weakness sticks around for a few months. High-yield investors should brace for the worst.

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1. NYSE:VET (Vermilion Energy)
2. TSX:CHE.UN (Chemtrade Logistics Income Fund)
3. TSX:GH (Gamehost)
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