Coronavirus Could Demolish These 2 Dividend Stocks

Description

A sudden and complete shutdown of the economy is unprecedented. Even during the height of the 2008 stock market crash, regular people could still go about their daily lives. Now, with an ongoing pandemic, the global economy has been halted like never before. The fallout could impact dividend stocks in Canada.

The economic consequences of such a far-reaching shutdown are still unclear. We simply have nothing to compare this with. However, we do know that certain sectors of the economy are nearly certain to suffer grave consequences for the next few months.

A massive debt load simply magnifies these problems further and could push certain companies in these vulnerable sectors to the point of bankruptcy. Here are two dividend stocks I believe investors should ditch before it's too late.

Energy dividend stocks

Vermilion Energy (TSX:VET)(NYSE:VET) could be one of the most vulnerable stocks on the Canadian stock market at the moment. The Calgary-based oil and gas producer faces a perfect storm of economic factors that could push it beyond the brink in 2020.

Firstly, demand for oil and gas is obviously expected to decline, as several countries are on lock down, international travel is severely restricted, and millions are working from home.

However, the ongoing price war between Russia and Saudi Arabia compounds these issues further. Alberta's energy companies simply cannot survive if the price of crude oil remains too low for too long.

As if these problems weren't enough, Vermilion also faces a cash flow issue. The company last reported $2 billion in debt and only $26 million in cash. Even after the recent dividend cut, the company cannot afford its dividend-payout ratio. Net profit margin was a mere 1.88% *before the crisis,* which means it will certainly lose money this year.

The 84% decline in Vermilion's stock price this year clearly reflects the fact that investors expect the company to fail imminently.

Real estate dividend stocks

Another vulnerable sector is the hotel industry. **American Hotel Properties REIT** (TSX:HOT.UN) most certainly cannot expect tourists or guests during this ongoing crisis. Anxiety about the virus and hygiene in public spaces could discourage travel for a while, *even after the shutdown ends.*

Under these circumstances, cash reserves and the value of the property portfolio should serve as buffers for real estate investment trusts like American Hotel. However, the company's debt burden could complicate its situation. The trust reported $1.83 in debt for every dollar in equity.

To service the debt and keep the company afloat, the company may have to consider a severe dividend cut soon. However, if the real estate market crashes as well, the trust will be in jeopardy.

The 68% decline in the company's stock indicates that investors are pessimistic about the company's prospects. If travel and tourism in North America don't recover soon, American Hotel could be one of the first victims of the coronavirus shutdown.

Bottom line

Investors should be prepared to change their mind when the facts change. Earlier this year, dividend stocks like Vermilion and American Hotel seemed robust. Now, there's an unexpected shutdown and potential credit crisis that could demolish their bottom lines. Shareholders should be aware of the risks and tread carefully in these sectors.

Don't catch a falling knife. Stay safe!

CATEGORY

1. Coronavirus
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3. TSX:VET (Vermilion Energy Inc.)

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