TFSA Investors: 2 Dividend Stocks That Could Cut Their Payouts After the Market Crash

Description

After the sell-off that took place last week on the markets, there are many deals out there for TFSA investors. There are plenty of stocks to choose from that are now providing better-than-normal yields for investors. However, there are some stocks that may want to watch out for. The two dividend stocks listed below could cut their payouts this year.

Vermilion Energy (TSX:VET)(NYSE:VET) announced in March that it would be slashing its dividend by 50%, which isn't a surprise. However, the reality is that another dividend cut may not be too far away. A lot has changed in just the past couple of weeks. The coronavirus is interrupting air travel and the demand for oil. And there's also a price war involving Saudi Arabia and Russia that has crippled the price of oil.

The outlook for oil and gas in Canada hasn't looked this bad in a long time. Companies have struggled with getting pipelines approved, and there's a lot of opposition to the industry. On top of all that, Vermilion's current dividend yield is astronomical. Even with the recent dividend cut, Vermilion stock is yielding 32%.

It seems like a typo until you remember that Vermilion pays a monthly dividend of $0.115 after the reduction. Annually, that comes out to $1.38, and its share price was around $4.30 last week. It's an unfortunate situation for dividend investors. Not only have they incurred significant losses as a result of the falling share price, but they'll get hit again with a lower dividend. But the reality is that there's more bad news to come. The company likely needs deeper cuts, and that's why another cut the dividend appears unavoidable.

Cenovus Energy (TSX:CVE)(NYSE:CVE) is another stock that can be in danger of cutting its payouts this year. Although it doesn't have a sky-high payout like Vermilion, it's still yielding around 6% per year. Cenovus issued a press release in March saying that it will be reducing its capital spend in 2020 by 32%. But that may be just the start of a more aggressive cost-reduction strategy to withstand what may be a prolonged price war that many oil and gas companies in Canada may not survive.

Cenovus's share price has shown a strong correlation to the price of oil in the past, and a price war suggests that more pain could come for the company's shareholders. While the stock may seem like a bargain trading well below its book value, there are many risks facing Cenovus and other oil and gas stocks today that negate its low valuation. It wouldn't be surprising to see the company slash its dividend this year, as conditions in the industry could continue to worsen.

Without much support from the government to aid the oil and gas industry, stocks like Cenovus and Vermilion look to face an abysmal outlook for the rest of 2020. TFSA investors are better off looking at other dividend stocks to add to their portfolios.

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