Cheap Dividend Stocks That Can Survive Coronavirus

Description

Stocks are much cheaper today than they were just two weeks ago. Bargains are everywhere. Yet sometimes, cheap stocks are cheap for a reason, especially when it comes to dividend stocks.

Dividends are supposed to be supported by excess cash flow. If a business is generating profits that can't be properly reinvested, dividends are a great choice.

Unfortunately, this ideal scenario isn't always what happens. This is what makes buying cheap dividend stocks so dangerous.

As the coronavirus continues to make waves across the global economy, the systemic risks continue to rise. The ancillary damage will exacerbate the impact far beyond those directly affected. Thousands of smaller businesses are already teetering on the brink of bankruptcy. Blue-chip stocks are seeing their credit ratings downgraded. If a company can't figure out a quick way to become cash flow neutral, it'll face a difficult road.

When it comes to cheap dividend stocks, the danger is two-fold.

First, some of these dividends have been partially funded through debt or share issuances. Credit is drying up, and stock prices are plummeting. These dividends will be more costly to support, if they remain sustainable at all.

Second, businesses that were formerly producing positive free cash flow suddenly need to pull back and rely on their cash reserves. The company may survive without issue, but paying a dividend to shareholders may be off the table.

Trust these cheap dividend stocks

Fairfax Financial Holdings (TSX:FFH) pays a dividend of 3.1% while **Hydro One** (TSX:H) stock now yields 4.2%. While you may be tempted to scoop up cratering stocks with yields of 6% or more, these companies prove why that's a mistake.

Dividend yields are usually calculated using the *previous* quarter's payout. Because that sum is a historical number, it'll remain the same even as the stock price falls. Naturally, you'll see yields go way up.

But it's *next* quarter's payout that you're most concerned with, not to mention the dividends that will come after that. After all, you don't receive dividends that have already been paid.

Dividends are usually decided on a quarterly basis, so we won't see the biggest cuts until new financial results are released. Again, that only happens four times a year. There's a big lag between what the dividend was and what the dividend will be.

Countless cheap dividend stocks will see their hopes dashed over the next quarter or two. Even if the company can technically afford to distribute the cash, businesses will be adopting an ultra-cautious approach. Who knows how long they'll need to rely on their cash balance. That attitude will force more dividend cuts than income investors anticipate.

What makes Fairfax and Hydro One cheap dividend stocks worth buying? It's built into their business models.

Fairfax has more than $4 billion in cash reserves, but dividends only cost it roughly $60 million per quarter. The company also has billions of dollars in short-term receivables. That's because its core business consists of a portfolio of insurance businesses. Insurance isn't usually on the chopping block, even during a recession. A strong cash balance and resilient business model make this modest yield a reliable payout, even during tough times.

Hydro One is arguably more resilient, making its 4.2% dividend a steal. The company delivers power to residents in Ontario. Its transmission network covers 98% of the province. Importantly, 99% of its cash flow is rate regulated. That means pricing doesn't fall off a cliff during a recession. Meanwhile, electricity demand remains steady during time of turmoil. There's very little chance that this payout will be cut.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:H (Hydro One Limited)

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

Date
2025/08/26
Date Created
2020/03/19
Author
rvanzo