Dividend Cuts: Income Stocks Are Casualties of the Stock Market Crash of 2020

Description

We knew it was coming. The stock market crash of 2020 has been unprecedented. The world is shutting down and will be taking a brief hiatus before coming back to life. Given this, dividend cuts were expected.

The oil and gas industry was the first to start cutting dividends. This week, others have followed suit. With that in mind, here are three notable income stocks that have announced dividend cuts.

The first major dividend cut

Vermilion Energy (TSX:VET) was one of the first companies to slash the dividend. At one point, Vermilion was yielding above 30%. Management reassured investors earlier this year that the dividend was safe. Unfortunately, investors' faith in management was misplaced. A yield that high is not good business practice.

How quickly the markets can turn. Within days of the Saudi war on the price of oil, Vermilion was posting record yields. On March 6, 2020, Vermilion slashed the monthly dividend by 50% to $0.115 per share.

Despite the cut, Vermilion's share price continued to plunge and the yield continued to rise. Over the past three months, the stock has plunged by approximately 85%. Only 10 days later, Vermilion announced a second dividend cut, dropping the monthly dividend to $0.02 per share.

For shareholders, that is equal to a 91.3% drop in monthly income in under a month. Now yielding 7.75% and with no end in sight for low oil prices, don't be surprised if the dividend is suspended outright.

Another oil and gas casualty

Any investor chasing yield would be familiar with **Arc Resources** (TSX:ARX). I had previously warned that Arc would follow in Vermilion's footsteps. Sure enough, the hammer came down on March 13, coinciding with a reduction in capital spending for 2020.

Arc Resources reduced the monthly payout to $0.02 per share — a 60% dividend cut. The company also seized the opportunity to change the frequency of payments. Arc will be switching to a quarterly payment of $0.06 per share effective next month.

It's a double-whammy for income investors. Not only do shareholders lose out on income, but those relying on Arc's monthly income were also disappointed. Can the dividend be sustained at today's rate? The company now yield's a much more respectable 7.79%, down from a peak of approximately 25% in early March.

If low prices persist, investors should not be surprised if they announce yet another dividend cut.

A Canadian Dividend Aristocrat

As far as I can tell, **NFI Group** (TSX:NFI) is the first COVID-19 Dividend Aristocrat casualty. Canadian Dividend Aristocrats are companies that have raised dividends for at least five consecutive years. Unfortunately for NFI Group shareholders, the Aristocrat status didn't last long.

NFI Group cut the dividend by 50% this past Tuesday, effectively stripping itself of its status as a premier dividend-growth company. Its run was a short one, as NFI Group was only added to the Aristocrat list this January.

The dividend cut was necessary, as the company was forced to idle most of its factories. Although it has a robust backlog of projects, the move was a prudent one given market conditions. More than two-thirds of its employees will be impacted, and it expects the cancellation or deferral of motor coaches from private sector clients.

On the flip side, the majority of customers "are public transit agencies or commercial operators providing public services." Once the world is open for business again, NFI Group is well positioned to bounce back.

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mlitalien