



## Canadian Dividend Aristocrats Are Cutting the Dividend

### Description

Canadian Dividend Aristocrats are companies which have grown the dividend for at least five consecutive years. They are considered among the best income investments in the country.

Showing a commitment to the dividend and consistent dividend growth is a sign of strong operations. Unfortunately, COVID-19 measures and the low price of oil is leading to [unprecedented volatility](#). It also has dividend growth investors on edge.

Since the beginning of March, 28 TSX-listed stocks [cut the dividend](#). Of those, three are Canadian Dividend Aristocrats.

### The first cut

The first Canadian Dividend Aristocrat to cut — **NFI Group** ([TSX:NFI](#)) — did so by cutting the dividend in half. NFI Group is a leading producer of transit buses for public transportation, and motor coaches. It also leads the field in terms of green solutions.

Unfortunately, COVID-19 mitigation efforts have significantly impacted company operations. It has closed the majority of its production facilities and also expects reduced demand. The company's yield touched a record high of approximately 16.5% during the current bear market.

The cut is a prudent one. NFI's payout ratios were above 100% as compared to earnings, free cash flow and operational cash flow. Given this, maintaining the dividend at the current rate was not sustainable as operations slowed to a crawl.

As the announcement was an outright dividend cut, NFI Group's five-year dividend growth streak is at an end.

### A temporary suspension

**A&W Royalties** ([TSX:AW.UN](#)) is another company that just achieved Canadian Dividend Aristocrat status. One of Canada's largest fast food restaurant companies, COVID-19 mitigation efforts are also

impacting the company.

As a food company, it's been deemed an essential service. Unfortunately, Canadians are actively practicing social distancing, which means fewer trips to their local fast food joints. As an income fund, it aims to payout the majority of income to shareholders.

Considering the payout ratio consistently bumps up against the limit, investors should not be surprised by last week's announcement. The difference however, was that A&W announced a temporary suspension. Unlike NFI, which cut the dividend outright, a temporary suspension alludes to the fact it will be reinstated once operations return to normal.

It will be interesting to see how the **Canadian Dividend Aristocrat Index** handles these situations. There is usually a two-year grace period whereby a company can remain on the list without having raised the dividend.

Given the extraordinary circumstances, should A&W remain on the list if it reinstates the dividend and returns to dividend growth? Only time will tell.

## Canadian Dividend Aristocrat with the longest streak

We end with **Inter Pipeline** (TSX:IPL). At 11 years long, Inter is the first company with a double-digit streak to cut the dividend. This move is the least surprising of the trio.

As I discussed previously, Inter Pipeline's dividend could have been sustainable, but the company had little room for error. It is currently building the \$3 billion Heartland Petrochemical plant, the largest project in company history.

As a result, it is significantly indebted and generating just enough cash to cover all its obligations, including the dividend.

The first warning sign came in the fall when Inter Pipeline kept the dividend steady. The low oil price was the final nail in the coffin. The company depended on generating increased cash flow in 2020. That situation has materially changed, and the company is likely to post negative growth.

Furthermore, the company's share price cratered and the company sponsored dividend reinvestment plan was leading to increased share dilution — as high as 10% according to some analysts.

While the 72% slash to the dividend is unfortunate, it was needed. The company still has an excellent growth profile and the 6% yield is still very attractive.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

### TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:NFI (NFI Group)

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