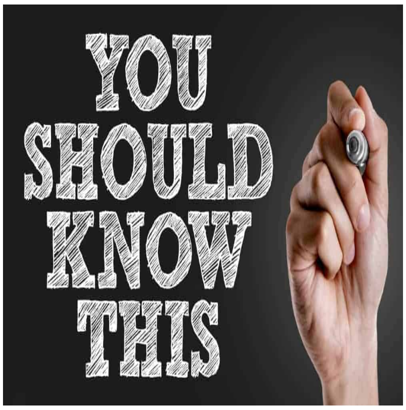

Dividend Cuts: How to Avoid Them in a Crash

Description

The coronavirus (COVID-19) pandemic is about to get worse and could pave the way for a slew of dividend cuts across the board. The stock market is in for another roller-coaster ride of a month, and the off-the-charts volatility will continue to test our stomachs as investors. It's going to be a heck of a ride, so if you might as well get paid a *reliable* dividend to wait for things to settle down.

Dividend cuts: Don't let them wreak havoc on your income stream

Dividend cuts are going to become a common theme over the coming months as the aggregate operating cash flows of companies will fall under due pressure. While many of the high double-digit yields may be seen as ripe for picking, investors need to pick their spots carefully, because firms can (and likely will) take dividends away from their investors.

In today's depressing environment, where many firms are slashing their dividends, there will less of a taboo with dividend reductions. Sadly, it could become the norm for firms whose operations are being severely disrupted by the insidious COVID-19. But that doesn't mean you need to settle for risking a sudden reduction to your monthly (or quarterly) income stream at a time when you (and every other individual investor) need it most.

That's why I'd strongly recommend picking up shares of businesses that have cash flows that are so robust that the risk of a dividend cut over the coming months is drastically reduced. By having a preference for well-capitalized firms with healthy balance sheets, more-stable-than-average operations, and insisting on a track record of dividend resilience, you'll be able to safely pick away at the now swollen dividend yields and effectively eliminate the risk of the dividend being taken right out of your hands.

Seek dividend heavyweights to steer clear of dividend cuts

Dividend reductions (or cuts) are a one-two punch to the gut of investors. As an investor, a dividend cut is likely to come alongside substantial capital losses, as income-seeking investors collectively ditch the stock on the news. Avoid a considerable amount of pain and get paid while you wait for the pandemic to subside with dividend heavyweights like **Shaw Communications** (TSX:SJR.B)(NYSE:SJR), which sport dividends that can be relied upon through the worst of times.

Mass layoffs are sweeping the nation, and with that, rent and telecom bill deferrals are likely to surge. That's going to affect the cash flow streams of the Canadian telecoms over the near term, but not in a devastating fashion to inspire a dividend cut. Unlike most other hefty bills, telecom bills can be put on credit cards, and deferred payments will fall on the hands of the big banks.

Moreover, a lower-cost wireless carrier like Shaw's Freedom Mobile will stand to be more resilient than the Big Three, as we progress through these tough times. The pandemic is going to leave a nasty recession behind, and with that, a new level of belt-tightening for Canadians. When it comes time to cut the budget, I see Canadians gradually moving out of expensive "higher-quality" wireless network providers as their contracts expire in favour of "affordable" providers like Freedom Mobile to save on their monthly bills.

Foolish takeaway

Shaw currently sports a safe 5.4% yield alongside a valuation that's just too good to pass on at this juncture. Shares trade at just 7.1 times EV/EBITDA and 1.6 times book and will stand to be less affected by COVID-19 relative to your average stock.

Deferred payments as a result of COVID-19 may be a cause for concern for the telecoms over the near term. But don't expect significant dividend cuts for the Big Four telecoms, especially not with Shaw, which looks best poised of its peers to ride out the coming recession.

Stay hungry. Stay Foolish.

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Date
2025/08/15
Date Created
2020/04/06
Author
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