After Vermilion (TSX:VET), Which Stocks Will Cut Dividends Next?

Description

Income-seeking investors hate a dividend cut. Retirement plans hinge on this crucial source of passive income, and a sudden cut could be devastating for savers. Nevertheless, an unexpected shortfall in income or liquidity crunch could push companies to cut their dividend payouts. This week, oil and gas giant **Vermilion Energy** suspended its dividend.

Before it suspended its payout, Vermilion was one of the most lucrative income stocks on the market. Based on its current market price and previous dividend payment, the yield was nearly 29%. Of course, that massive dividend yield proved to be too good to be true.

It's likely investors could face more dividend cuts ahead.

Here are the dividend stocks I worry about most. If you hold any of these, re-evaluate your risk tolerance and cut exposure if you see trouble ahead.

Banks

When the economy declines, people and businesses lose the ability to service their debt. This means delinquencies on business loans, credit cards, and auto loans spike. This has already started in Canada, as unemployment hits a record high.

By far the biggest concern is mortgage debt. Canadian banks are overexposed to household mortgages. If house prices decline and people lose their properties, banks could be severely hit. I believe **Equitable Group's** exposure to subprime lenders and **Bank of Nova Scotia's** exposure to residential mortgages puts them at risk of dividend cuts.

Property

If residential property is a concern, commercial property is downright terrifying. Shops, hair salons, malls, and offices are all shut, as people self-isolate. If the shutdown persists for a month or more, small businesses will unwind. This will spike vacancy rates and lower rental income for commercial landlords.

Brookfield Property Partners and **RioCan** are vulnerable here. The risks are further magnified for certain types of properties. The pause in international tourism could impact **American Hotel Properties** . Meanwhile, the rising cases of COVID-19 could impact client confidence in retirement homes.

Chartwell Retirement Residences has already withdrawn its guidance for 2020.

Energy

The collapse in the price of crude oil magnified the economic hurdles for Canada’s oil and gas sector. Nearly every energy stock could be at risk of cutting or suspending dividends — even seemingly robust names like **Enbridge** could struggle.

Enbridge is likely to face a dent to its top line this year. Meanwhile, its dividend-payout ratio was 112%. Long-term debt was worth 95% of shareholder equity. That means the company can barely afford its 8% dividend. If the sector doesn’t recover soon, or if the cost of debt rises, Enbidge may have to cut back on shareholder rewards.

Bottom line

All companies try to conserve cash during an economic crisis. However, some companies can cut costs and service their obligations while maintaining dividend payouts. Others have too much debt, slim margins, and little capacity to sustain dividends.

I believe commercial real estate firms, banks, and energy stocks could be most at risk. Investors should look at the debt-to-equity and dividend-payout ratios to see if struggling businesses may have to cut back on payouts.

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