Dividend Aristocrats: Outlook Is Bearish

Description

Canadian Dividend Aristocrats are considered some of the most reliable income-paying stocks on the TSX Index. They have a commitment to growing the dividend with dividend-growth streaks of at least five consecutive years.

Unfortunately, not even the most reliable dividend payers in the country are able to withstand the current realities of the harsh economic conditions. Companies are cutting and suspending dividends at a record pace. Even those well positioned to raise dividends are taking a cautious approach and keeping the dividend stead.

Since I last warned investors about companies cutting dividends, there have been several more cuts by Canadian Dividend Aristocrats. Should income invests hang on or cut their positions? Let's take a look.

A Dividend Aristocrat with a negative outlook

Gildan Activewear's (TSX:GIL)(NYSE:GIL) status as a reliable dividend payer is at an end. Last week, the company suspended the dividend, which effectively put a halt to its nine-year dividend-growth streak.

Unfortunately, the future doesn't look bright for this leading printwear company. COVID-19 mitigation efforts have all but halted demand for its products. The company's main business unit has seen demand drop by over 75% in April.

The lockdowns and bans on large gatherings in North America are crippling demand. The North American market accounts for two-thirds of sales. As of now, there is no clarity on when markets will re-open. In particular, large events may not see a return until post 2020.

According to CEO Glenn Chamandy, “We think it’s going to be a slow trajectory. We definitely will have less sales as we go forward. And they will be a function of how people will move around and how things open up.”

Given all the uncertainty that currently exists, I would not expect this former Dividend Aristocrat to reinstate the dividend anytime soon. As such, dividend investors are best to look elsewhere for a reliable income stream.

A highly volatile stock

Last week saw another Canadian Dividend Aristocrat cut the dividend. **Methanex** (TSX:MX)(NASDAQ:MEOH) slashed the dividend by 90% on the same day Gildan announced its suspension. Like Gildan, Methanex’s nine-year dividend-growth streak is effectively over.

Methanex’s profitability is dependent on strong methanol commodity prices. Unfortunately, prices have been under pressure, and the company is being forced to act. On top of slashing the dividend, the company is delaying approximately $500 million worth of growth projects for at least 18 months.

The past decade has been a challenging one for the company. Methanex is trading at a decade low, which means that all shareholders who bought in over this period are in the red. Unfortunately, the company is not a stranger to downtrends.

Methanex stock is highly volatile, and although COVID-19 mitigation efforts broke the dividend streak, the downturn began well before that. In fact, the company has been in a steady downtrend since late 2018, with little-to-no buying pressure.

It is one of the main reasons why I’ve personally stayed away from Methanex, despite its status as Canadian Dividend Aristocrat. The company is too volatile for my liking, and the dividend is constantly under pressure in a bear market.

Although the company can rebound in a big way once methanol prices recover, the company is too volatile to be considered a top income stock.

Foolish takeaway

Dividend-growth investors will have to reset their expectations. Uncertainty reigns supreme, and until the economy recovers in a meaningful way, it is likely Canadian Dividend Aristocrats will opt to preserve cash. This means the outlook is bearish for future dividend growth, and there are likely to be more cuts and suspensions on the way.

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