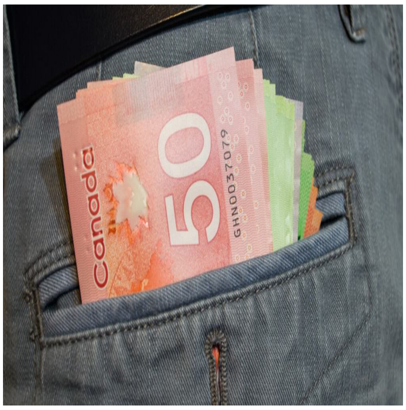


Canadian Dividend Stock Suncor (TSX:SU) Slashes Dividend: More Cuts Ahead

Description

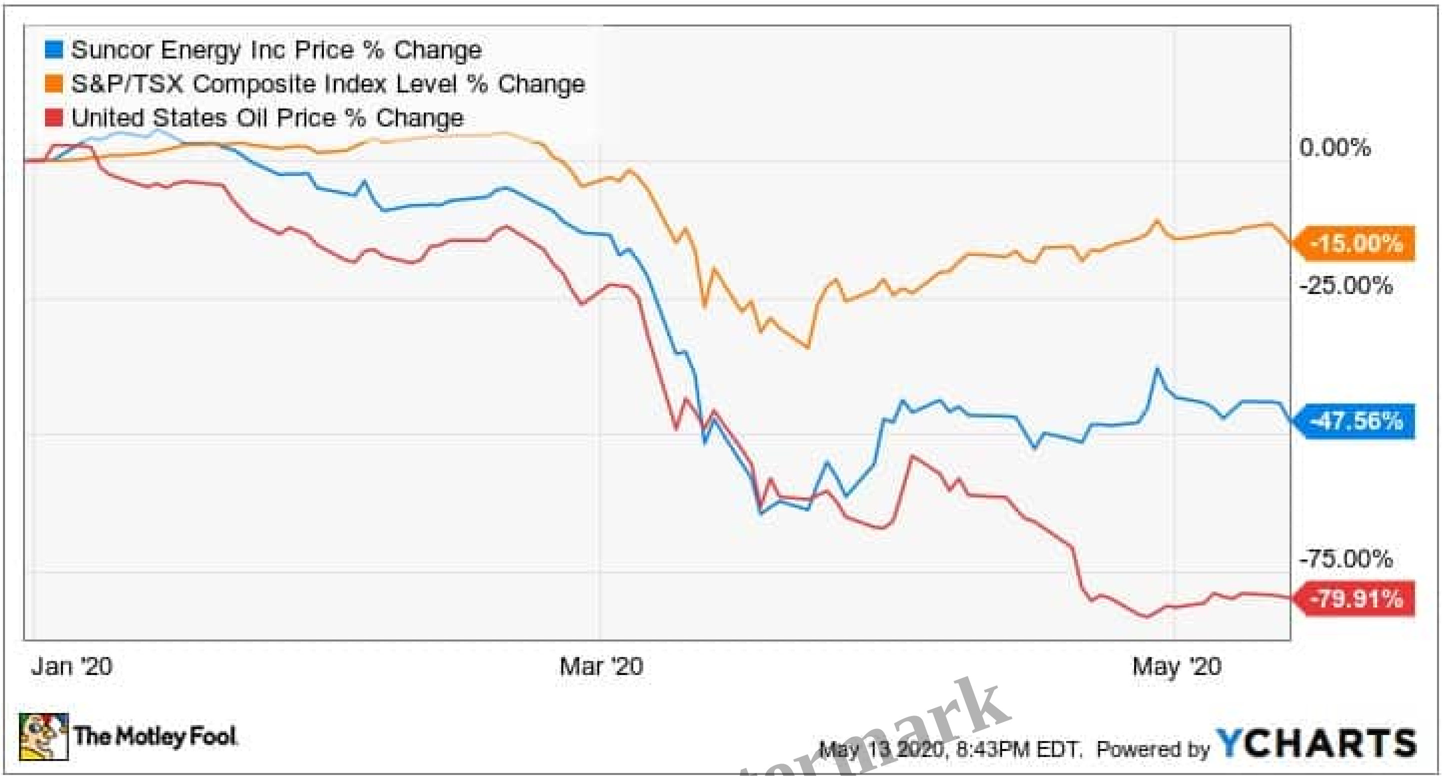
Canadian dividend stocks have long attracted the interest of investors seeking to build wealth and establish a sustainable passive income stream. Investing in quality Canadian dividend stocks has long been one of the easiest paths to achieve investing success.

That now appears under threat. The coronavirus pandemic and ensuing economic slump have had a sharp impact on company earnings, which has seen many companies consider bolstering cash flow and balance sheets by cutting dividends.

Deteriorating results

In a surprise move, integrated energy major **Suncor** (TSX:SU)(NYSE:SU) slashed its dividend payment last week by 55% after reporting a $3.5 billion first-quarter loss. This shocked the market because the energy giant, unlike many of its peers, left its dividend untouched even after oil prices collapsed in 2015.

That coupled with the latest oil price collapse sees Suncor being harshly treated by the market. The energy giant has lost 48% for the year to date compared to 15% for the **S&P/TSX Composite Index**.



Suncor's strong balance sheet, low operating expenses and prudent capital management has long been held as a model for the oil sands industry to follow. Those factors combined with the combination of upstream and downstream operations led many to believe that Suncor was highly resistant to weaker oil prices.

If Suncor is making such a significant cut to its dividend, it is not only a harbinger of worse to come for the energy patch, but for all Canadian dividend stocks. There are signs that the impending recession triggered by the pandemic will spark the worst recession since the Great Depression, which will in turn weigh heavily on corporate earnings.

According to Statistics Canada, two million jobs were lost in April 2020 — a record high — as the coronavirus pandemic sharply impacted the economy. Further data showed that Canada's economy shrank by a worrying 9% during the first quarter of 2020, the worst ever result on record.

Dividend stocks facing more cuts

The rapidly growing economic fallout has sparked considerable fears that many Canadian dividend stalwarts will slash their dividend payments. Among some of the worst affected could be the Big Six banks. U.S. banks delivered shocking first-quarter 2020 results, with overall profits being around half of what they were a year earlier.

Nevertheless, they have yet to cut their dividends despite growing speculation that it is inevitable.

If Australian banks are any guide, with two of the big four banks, **Westpac** and **ANZ,** axing their half yearly dividend while **NAB** has reduced its payment by 64%, then Canada's Big Six could be forced to make cuts. That will have a sharp impact, not only on income focused investors such as retirees, but also on the economy overall.

It is worth noting, however, that Canada’s Big Six banks have far more conservative dividend policies than their Australian counterparts, giving them substantially lower payout ratios. This means there is substantially more fat to absorb weaker earnings before dividend cuts need to be considered.

Dividend cuts economic impact

Even more foreboding is the impact on the economy. Canadian companies pay dividends thought to be worth more than $62 billion annually. This equates to around 4% of annual GDP and is a huge chunk of change for an economy failing under the weight of the coronavirus pandemic.

Somewhere around US$100 million in dividends paid by U.S. companies were lost during 2008 to 2009 – a loss that deepened the impact of the Great Recession which emerged from the financial crisis initiated by the U.S. housing market meltdown.

Suncor’s dividend cut has eliminated almost $1.3 billion from Canada’s economy. Integrated energy major **Husky** also slashed its dividend by 90% after reporting a first-quarter loss of $1.7 billion, saving the company $452 million that won’t be flowing into the domestic economy. Those cuts alone have wiped out almost $1.8 billion in dividend income.

There are indications that **Canadian Natural Resources** and **Cenovus** will follow suit, particularly with oil crisis lasting longer than anticipated.

Foolish takeaway

As the value of dividend cuts grows, it will cause spending and capital inflows to diminish, impacting Canada’s economy. This will have a notable impact on self-funded retirees, forcing many to slash spending and consumption while placing greater financial stress on an already stretched Ottawa.

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