Warning: 2 Dividends That Could Be Next on the Chopping Block!

Description

The insidious coronavirus continues to wreak havoc on the global economy while causing tremendous pain and suffering for many around the world. As the coronavirus continues to decimate the operating cash flows of many firms, dividend cuts are going from being taboo to being the norm, as financial flexibility becomes limited.

Sadly, even some of the bluest of blue-chip stocks out there are not immune from a dividend cut in these unprecedented times. For all but the most resilient firms, the coronavirus pandemic has blurred the lines between what's an investment and what's a speculation.

It's hard to believe that a well-capitalized company like **Suncor Energy** would be slashing its dividend by 55% last year. The move was unprecedented, as was the black swan event that sparked oil's latest rout.

This piece will look at two companies that may be next in line to reduce their dividends as coronavirus-induced pressures continue to weigh.

Canadian Natural Resources

If Suncor can put its dividend on the chopping block, so too can **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), a well-capitalized firm in Alberta's ailing oil patch. The stock sports a sizeable 7.5% dividend yield and is a tough situation should oil prices remain lower for longer.

The company has a very healthy balance sheet, with a debt-to-equity ratio of 0.68 and a satisfactory 0.45 quick ratio. The firm looks slightly more liquid than Suncor and a management team that's arguably more shareholder-friendly.

Despite management's commitment to protecting its shareholders from the horrific oil price environment, it makes a tonne of sense for the firm to reduce its dividend modestly for the time being to shore up a bit of liquidity to navigate this highly unpredictable environment.

Although CNQ's dividend is theoretically sustainable with a TTM payout ratio of 58.3%, it wouldn't be too far-fetched to see the firm follow in the footsteps of its big oil peers following its blacklisting by the world's largest wealth fund due to high emissions.

Add the recent COVID-19 outbreak at CNQ's recent work camp into the equation, and I don't think investors will be surprised if CNQ were to reduce its dividend by a modest amount before another pullback sends the yield soaring above the 10% mark.

IGM Financial

IGM Financial (TSX:IGM) is a wealth and asset management firm that sports a huge 8.1% dividend yield that may not be sustainable should this pandemic continue dragging on, even as the economy reopens. Given the massive amounts of layoffs and furloughs, there's simply not as much wealth to invest these days.

While IGM stock plunged 48% from peak to trough on the coronavirus crash, it has rebounded a whopping 42% off its bottom. As the broader markets look to retest their March lows in the coming months, I see a large chunk of IGM's recent gains being surrendered, as the dividend yield swells back above the 10% mark.

The company has nearly $9 billion worth of total debt sitting on the balance sheet and a 1.92 debt-to-equity ratio, both of which are a tad on the high end.

Although the 73% TTM payout ratio leaves IGM's dividend in a "theoretically safe" territory, one has to wonder how much longer the firm will support it as coronavirus-induced headwinds continue to mount on the financials.

Count me as not surprised if IGM cuts its dividend sometime soon.

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