15 Energy Stocks That Cut the Dividend in Q1

Description

There is no way to sugar coat it; energy stocks were arguably among the worst hit in the first quarter. Not only were companies faced with reduced demand thanks to the pandemic, but the Saudis declared a war on the price of oil. Through March 31, the **S&P/TSX Capped Energy Index** lost 58.81% of its value. In comparison, the **S&P/TSX Composite Index** only lost 21.59% in the first quarter.

The economic impacts of COVID-19 mitigation efforts are having widespread impacts on cash flows. Not surprisingly, this is leading to a record pace of dividend cuts and suspensions. This is a problem, as many investors rely on dividend-paying companies for income.

In the first quarter, 30 TSX-listed companies either cut or suspended the dividends. Over the past few days, we took a look at the real estate, consumer discretionary, and industrial sectors. Today, we look at the 15 energy stocks that either cut or suspended the dividends in the first quarter.

	Old	New	Percentage	Date
Vermilion Energy	$0.23	$0.115	50.00%	3/6/2020
Surge Energy	$0.10	$0.01	90.00%	3/9/2020
Horizons North Logistics	$0.02	$0.00	100.00%	3/11/2020
CES Energy Services	$0.060	$0.0150	75.00%	3/12/2020
Total Energy Services	$0.06	$0.00	100.00%	3/12/2020
Arc Resources	$0.05	$0.02	60.00%	3/13/2020
Shawcor	$0.15	$0.00	100.00%	3/16/2020
Cardinal Energy	$0.015	$0.00	100.00%	3/16/2020
Crescent Point Energy	$0.010	$0.0025	75.00%	3/16/2020
Prairie Sky Royalty	$0.78	$0.24	69.23%	3/16/2020
Torc Oil & Gas	$0.025	$0.005	80.00%	3/16/2020
Whitecap Resources	$0.0285	$0.01425	50.00%	3/17/2020
High Arctic Energy Services	$0.02	$0.00	100.00%	3/20/2020

Secure Energy Services	$0.300	$0.030	90.00%	3/25/2020
Inter Pipeline	$0.1425	$0.040	71.93%	3/30/2020

The first to cut

The slew of cuts and suspensions kicked off with **Vermilion Energy** (TSX:VET)(NYSE:VET). A favourite among income investors for its high yield, Vermilion slashed the dividend by 50% in early March. Investors were caught off guard, as management had reiterated that the dividend was safe many times.

However, investors should have seen this coming, as this energy stock was yielding in the double digits before the pandemic hit. This simply isn't good business practice. Vermilion followed up with a second cut on March 16, when it cut the dividend to $0.02 from $0.011 per share. This was an 83% cut.

Vermilion finally ripped off the band-aid when it suspended the dividend in its entirety in mid-April.

A Canadian Dividend Aristocrat

One of the more notable cuts in the first quarter came by means of **Inter Pipeline** (TSX:IPL). As a midstream energy stock, cash flows are typically more stable than producers. However, Inter Pipeline is undertaking the largest project in history — the Heartland Petrochemical Plant.

In the fall, the company failed to raise the dividend in line with Inter's historical pattern. This was the first warning sign. At the time, I had warned investors that the company required perfect execution to maintain the dividend.

Unfortunately, costs at Heartland are expected to jump by $500 million. Combined with lower cash flows as a result of the current environment, Inter Pipeline cut the dividend by approximately 72%. This effectively ends the company's 11-year dividend-growth streak, and it loses its status as an Aristocrat.

A mid-tier producer

Whitecap resources (TSX:WCP) announced a $2.4 billion loss in the first quarter, as it wrote down $2.9 billion in assets due to low oil prices. Not surprisingly, the company announced a 50% cut to the dividend on March 17, 2020.

Energy stocks including Whitecap are in cash-preservation mode. Outside of cutting the dividend, Whitecap is also reducing capital expenditures and cutting costs. In the first quarter, it was a fight for survival.

On the bright side, the changes made by Whitecap Resources will result in the company being cash flow neutral at $35 per barrel. Given the recent rise in WTI prices, it appears the company may escape without a second cut.

Are these energy stocks a buy today?

In the first quarter, the list of energy stocks that cut or suspended dividends was littered with small- to mid-cap names. Although a rebounding the industry could mean big returns for some of these companies, considerable uncertainty remains.

That being said, Vermilion Energy is now under new leadership. Trust in previous management was lost, and it now has a chance to re-establish itself as a leading mid-tier producer. Likewise, Whitecap seems well positioned for the remainder of the year. Its premium asset base will allow it to generate positive funds, assuming prices don't reach single digits, as it did in April.

As for Inter Pipeline, the rise in costs at Heartland is disappointing. That being said, it is a transformative project that will increase EBITDA in a meaningful way. However, it will require good execution here on out.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:VET (Vermilion Energy Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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