Weekly Dividend Cuts: The Pace Is Slowing

Description

The pace of dividend cuts and suspensions is happening at a record pace. Since the start of the pandemic, there have been more than 80 companies that have either cut or suspended dividends. Leading the way are energy stocks. The sector is facing multiple headwinds, including pipeline constraints, low oil prices, and pandemic-mitigation efforts.

Income investors are rightfully nervous — this is especially true of those who rely on stable and steady dividends in retirement. The good news is that dividend cuts and suspensions are beginning to slow. That being said, bad news continues to trickle in.

Last week, **Cervus Equipment** (TSX:CERV) was the only Canadian stock that joined the long list of cutters. On Wednesday, this industrial stock announced it was cutting the dividend, which means that the company's mini two-year dividend-growth streak is at an end.

	Old	New	Percentage	Date
Cervous Equipment	$ 0.11	$ 0.015	-86.36%	06/10/2020

A big dividend cut

The 86.36% dividend cut was significant. However, it isn't the first time the company made such a move. During the last oil bear market, Cervus cut the dividend by approximately 70% . Given this, one would think the company's fortunes are tied to the price of oil. Not so fast.

An industrial stock, Cervous is a global provider of John Deere, Peterbilt, JLG, Clark, Sellick and Doosan brands. It operates in three segments: Agriculture, Transportation, and Industrial. It has 63 dealer locations across Canada, Australia, and New Zealand.

The majority of business comes from the Agriculture segment, which accounted for approximately 60% of revenue in 2019. Although the company's two cuts coincide with oil bear markets, it is only an indirect correlation.

Shares are undervalued

Cervus's dividend cut is unlike the rest. The one constant message among all cutters thus far is that the move to cut or suspend the dividend is being made with the intention of preserving cash.

Given the considerable uncertainty that exists, companies worldwide are also reducing capital expenditures and stopping share buybacks. All this is in the name of cash preservation.

According to management, Cervus cut the dividend for another reason — to buy back shares. According to Peter Lacey, founder and chairman of the board: "In our view it would be a significant oversight not to capture the opportunity to buy Cervus shares at a substantial discount to tangible book value, especially in light of future growth aspirations communicated in our five-year strategic plan."

As of writing, Cervus is trading at 0.5 times book value. This supports the company's position that the share price is currently trading at a discount. The company has a strong balance sheet, and it generates consistent cash flow.

Given this, the company is redirecting all cash from the dividend cut to repurchasing stock under the NCIB. Cervus is, in fact, returning the same amount of cash to shareholders. It is simply adopting a different strategy, one that it believes represents more effective use of cash.

Is Cervus Equipment a buy today?

Re-directing cash to buy back shares of an undervalued company is a move that not many companies would make. In my opinion, it's a smart move and worthy of investors' praise. It shows foresight and that management is actively looking to make the best use of cash.

The company is trading at a big discount to book value, and as an essential service, it continues to operate throughout the economic shutdown. Although income investors may sour on the company, value investors would do well to take a close look at Cervus Equipment.

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