Income Investing: Weekly Dividend Cuts

Description

The pace of dividend cuts and suspensions is happening at a record pace. Since the start of the pandemic, more than 80 companies 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.

Two weeks ago, there was only one TSX-listed company that announced a dividend cut. Last week, **Canwel Building Materials Group** (TSX:CWX) and **Rocky Mountain Dealerships** (TSX:RME) were the only Canadian stocks to either cut or suspend dividends.

	Old	New	Percentage	Date
Canwel Building Materials Group	$ 0.14	$0.12	-14.29%	06/15/2020
Rocky Mountain Dealerships	$0.06	$0.015	-87.76%	06/16/2020

A steep dividend cut

On Tuesday, Rocky Mountain Dealerships announced that it was cutting the dividend to $0.015 per share — an 88% cut. It's worth noting that the company pre-announced its intentions to cut the dividend back in April.

On April 29, the company said it would slash the dividend from $0.1225 per share to “no more than $0.06,” which would have resulted in a 51.02% cut at minimum. However, the cut was much larger than anticipated. The move will generate cash savings of approximately $8.3 million on an annualized basis.

Since the start of the pandemic, there have been a handful of companies that have cut dividends more than once. Each time, it has resulted in a complete suspension of the dividend. Although it is technically not a second cut, it is likely that Rocky Mountain will follow suit, unless the short-term prospects improve in a meaningful way.

An industry first

Income investors who have investments in the Construction and Home Building industry have thus far escaped the pandemic relatively unscathed. That is, until Canwel Building Materials became the first to announce a dividend cut.

On Monday, the company announced a dividend of $0.12 per share, down from $0.14 previously. The 14.29% decrease in the quarterly dividend will not take effect until the third quarter.

The move is somewhat surprising when one considers the company experienced a 9% increase in sales from January through May. Despite the current pandemic, the company's business model is proving to be quite resilient.

It seems the reduction in the third quarter dividend is being made out of an abundance of caution. There currently exists considerable uncertainty, and Canwel's board of directors believes it is a "prudent measure to enhance (their) capital and financial flexibility."

Are these income stocks buys today?

Neither of these companies have sustained a prolonged dividend-growth streak. Rocky Mountain Dealership is a micro cap with a negative five-year revenue growth, and it has averaged low, single-digit earnings growth. Considering the current uncertainty, the company is more vulnerable to poor economic conditions.

For its part, Canwel has actually performed quite well throughout the pandemic. Although the dividend cut is disappointing, investors can't fault a company for taking a cautious approach. Trading at 19 times earnings and only 1.06 times book value, the company is decently valued and is the better option of the two.

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