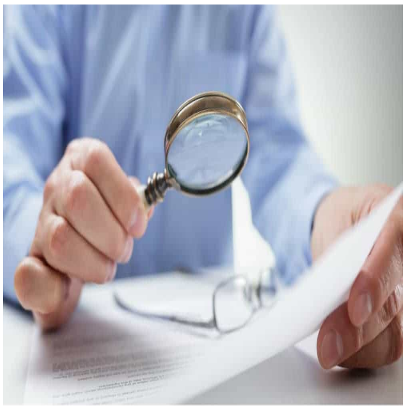

Uh-Oh! This 1 Stock Might Cut its Dividend Soon

Description

Dividends are often considered one of the most reliable and dependable passive-income sources, especially if you are choosing stocks with stellar dividend histories, preferably Aristocrats that have grown their dividends for five consecutive years or more. But even that's no guarantee that the company may not slash its dividends in the future.

In the 2020 market crash, several companies were forced to cut their dividends, including REITs that are practically chosen for their dividends. Even an Aristocrat like **Suncor** was forced to break its dividend streak, because it wasn't feasible to continue rewarding investors when the company was having a hard time covering its expenses.

But a market crash isn't the only trigger for a company to cut its dividends. Weak financials, higher payout ratios, and industry-specific challenges might force any company to cut its dividends. One company that might be on the teetering edge and will probably slash dividends if things start to go downhill for the energy sector is **Gibson Energy** (TSX:GEI).

The company

Gibson Energy is a Calgary-based midstream oilfield service and infrastructure company. It has a storage capacity of about 15.7 million barrels and 500 km of a crude oil pipeline. The company either stores or transports about 25% of the barrels of crude oil produced in Western Canada. It has two major terminals: one with 14 million and another with 1.7 million barrels of storage capacity.

It also has a crude oil-processing facility, and it's slowly expanding both its local (Canadian) and U.S. reach. It recently landed a major deal with Suncor Energy. With a market capitalization of $3.37 billion and a diversified portfolio of infrastructure assets, Gibson seems stable at the moment.

The stock and dividends

Gibson Energy stock is still struggling to recover its pre-pandemic valuation, even now when the energy sector is well on its way to recovery. While it's not ideal from a capital growth perspective, it has made the yield quite attractive (6.54%). But will the company be able to sustain its payouts for long?

The company is offering its dividends at a payout ratio of 165.8% — the highest yet in the past three years. The revenues have been sliding down since the first quarter of 2020, and the company couldn't turn things around till the last quarter. And if the oil demand dips even a fraction of its 2020 depths, the income situation might not improve for Gibson.

The company has sustained and even grown its dividends in the past five years, but with revenues slipping, it might not be able to sustain its current payouts.

Foolish takeaway

The number of new coronavirus cases has started to come down in both Canada and the U.S., but the situation is quite dire in India, which the third-largest oil importer in the world. If the reduced oil demand in India clashes head-on with the surplus the oil companies are starting to dump in the market, the oil prospects might go down. It could have a drastic impact on stocks like Gibson.

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