Trick or Treat? 2 TSX Stocks Could Be Dividend Traps

Description

It's almost Halloween, and the TSX is still on an upward trend, despite the threats of rising inflation and other headwinds. Canada's primary stock benchmark has registered 13 consecutive sessions of gain. Some market observers think a correction is long overdue.

When the global pandemic started in March 2020, the TSX plunged 12.34% in mid-month, its most significant single-day drop since 1940. All primary sectors were in negative territory, with energy suffering the worst beating. Many companies across various industries experienced business reversals.

Dividend cuts

Suncor Energy (TSX:SU)(NYSE:SU), a Dividend Aristocrat, announced in early May 2020 a 55% cut in the dividend. The oil bellwether posted a $3.5 billion quarterly loss. Later in the same month, **Laurentian Bank** (TSX:LB) slashed its dividend by 40%, an uncharacteristic move by a Canadian bank.

Suncor said it needed to preserve capital and protect the balance sheet. Laurentian Bank reasoned it was necessary to bolster the balance sheet and provide flexibility. The stocks lost investors' favour as a result.

As of October 23, 2021, the energy stock is up 39.67%, while the bank stock is ahead 35.19%. Both stocks outperform the TSX year to date. But are they good prospects or dividend traps if the stock market collapses again?

Turnaround year

Suncor Energy has recovered from the slump in 2020. The stock's gain from a year ago is 80.3%. At $28.25 per share, the dividend yield is a decent 2.97%. Market analysts recommend a buy rating and forecast an upside potential of 33% in 12 months.

The $41.94 billion oil sands king seeks redemption and wants to restore investors' confidence. In the first half of 2021, Suncor's net earnings reached $1.68 billion. The net loss in the same period in 2020 was $4.13 billion. Notably, cash flow from operating activities grew 171.6% to $2.086 billion.

Mark Little, Suncor's president and CEO, said, "The improved cash generation enabled us to increase shareholder returns to approximately $1.0 billion." The company emphasizes that maximizing shareholder return is the primary focus. In the back half of 2021, management also plans to reduce debt further in the back half of 2021.

Suncor Energy's Q3 2021 results should be out by the time this article comes out. The excitement is building, because impressive financial and operating results will propel the stock.

Impressive financial performance

Laurentian Bank investors can take comfort that the 3.92% dividend is safe and sustainable. The $1.78 billion bank maintains a payout ratio of below 40%. Also, at $40.82 per share, the trailing one-year price return is 59.3%. If you own this bank stock, market analysts recommend a hold rating. They predict a 13.87% return potential in 12 months.

Regarding the dividend cut last year, then CEO François Desjardins, said, "We have a strong capital and liquidity position, and disciplined risk management, but it is a time for prudence." Fast forward to 2021, and we see the bank posting glowing financial results.

After three quarters in fiscal 2021 (nine months ended July 31, 2021), the net income was $159.9 million — 107% year-over-year growth. Current LB president and CEO Rania Llewellyn is excited about the journey ahead.

Treats, not tricks

Suncor Energy and Laurentian Bank aren't typical dividend traps. Their decisions to slash dividends were for good. Only the next market correction will tell if the companies are far stronger this time.

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3. TSX:SU (Suncor Energy Inc.)

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