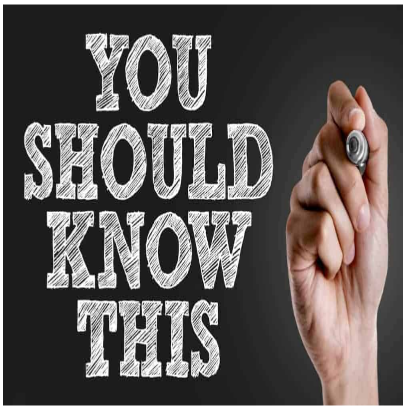

TFSA Investors: This Stock’s Dividend Could Be Coming to an End!

Description

Dividend stocks are great investments to hold inside a Tax-Free Savings Account (TFSA). The funds can just pile up while you watch your portfolio’s balance rise over time. And if you need to tap into the funds, you can do so without any penalty. It makes a TFSA a great investing tool, as it offers great flexibility for investors. However, when a stock stops paying dividends or hints that it might, that can be problematic. A dividend cut or suspension can be a sign of trouble or that a company is changing its focus, which may or may not align with your strategy.

Tech company warns that it may stop paying dividends

Earlier this week, software developer **Constellation Software** (TSX:CSU) posted a letter to its shareholders where it stated that it would stop paying special dividends “in all but the most compelling circumstances.” The company has issued a special dividend three times with excess free cash flow. Dividend payments are discretionary, and special dividend payments are even rarer, with a company typically issuing them when things are going exceptionally well. But the company has also warned that even its quarterly dividend could be “sacrificed” as Constellation focuses more on acquisitions to fuel its growth.

In the fourth quarter, the company spent US$179 million on acquisitions. Its dividend payments during the period totaled US$21 million, roughly 6% of its free cash flow of US$349 million. The dividend payments aren’t crippling the company’s ability to invest in businesses. However, Constellation may be looking to stockpile as much cash as it can for a big acquisition later on.

Why cutting the dividend might be a good move

Constellation currently focuses on both dividends and acquisitions, which is something I'm not terribly fond of, especially given that its yield is a nominal 0.3%. It's a trivial yield, and income investors would likely invest in other stocks if a good dividend payment was truly important to them. Even if youinvested $100,000 into Constellation, at that yield you would be making just $300 annually in dividendincome.

By focusing entirely on growth and acquisitions, Constellation can make itself a more attractive business overall. And that can help make the stock more popular with tech investors. Over the past year, the stock has risen more than 21%, outperforming the TSX, which is up just 4% over the same time frame. But the stock currently trades at a hefty price-to-earnings ratio of more than 60, and that high price tag could deter some investors from buying its shares.

Bottom line

Today, the stock offers a minimal yield, and although Constellation's business is still growing, that's mainly via acquisitions. In its fourth-quarter earnings, the company reported just 1% organic growth. That isn't going to generate much excitement. Constellation needs to find more opportunities to grow its business beyond just buying other companies. Acquisitions can be costly and dilutive for shareholders, and if they're inefficient, they can weigh down earnings numbers, too.

While stopping the dividend may free up more money for the company, that doesn't guarantee that Constellation will be a good buy over the long term, as investors will want to see more than just acquisitions boosting its sales numbers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
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3. Msn
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7. Yahoo CA

Category

1. Investing

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