

Investor Protection & Awareness in the Wake of Dividend Suspensions

“Declared” does not always mean “paid.” That painful lesson resurfaced in March 2025 when Cirtek Holdings Philippines Corp. abruptly suspended the cash dividends it had already declared on every class of its preferred shares, citing the need “to manage liquidity and preserve resources.” Only a few weeks earlier, Phoenix Petroleum had told the Philippine Stock Exchange that it still lacked unappropriated retained earnings to honor more than two years of unpaid cumulative dividends on its preferred-share series.

For thousands of retail holders who bought those preferreds for “bond-like” income, the announcements were a rude reminder that preferred shares are not bonds. They sit lower in the repayment hierarchy, and crucially, the board of directors can defer dividends when cash is tight.

1. Know Your Instrument: Not All “Yield” Is Created Equal

Preferred shares often trade at yields well above investment-grade corporate bonds. The spread compensates for, among others, structural risks that are spelled out, in black and white, in every prospectus, to wit:

Key Provision (found in most Philippine preferred-share prospectuses)	Practical Consequence
“Cash dividends... may not be paid in full, or at all... if the Company does not have retained earnings... or elects to defer.” “Dividends on the Preferred Shares shall be declared at the sole discretion of the Board of Directors.”	Payment can be postponed indefinitely; arrears usually accrue but are not enforceable until the company’s finances recover. Even cumulative dividends do not guarantee payment within any particular timeframe—only that missed dividends will accrue if and when declared in the future.
“Offer Shares are perpetual securities and investors have no right to require redemption.” “No fixed maturity, or issuer has an option (not an obligation) to redeem.”	This means investors could be exposed indefinitely. If they wish to exit, their only option is to sell on the secondary market—potentially at a steep discount during times of distress or illiquidity.
“The obligations of the Company under the Offer Shares will constitute unsecured obligations... subordinated to the Company’s indebtedness.”	In a liquidation scenario, preferred shareholders are only paid after all creditors—including banks, bondholders, employees, and even the BIR—are made whole. There is “a substantial risk that an investor... will not receive a full return of the principal amount or any unpaid amounts due.”
Step up or reset rates after five years (or more).	Attractive headline rate today may reset lower—or remain too low—if reference benchmarks fall.
“The Company’s financing agreements contain provisions that could limit the ability of the Company to make payments.”	Even if cash is available, restrictive covenants in loan or bond agreements may legally prevent dividend payouts, especially if financial ratios are breached.

Because of these features, a preferred’s dividend is more like a “contingent coupon” than a contractual interest payment. Treating it like a bond coupon is a category error.

2. Due Diligence Starts—and Often Ends—with the Prospectus

Everything an investor needs to understand these risks is contained in the offering documents:

- **Capital structure & leverage.** Look for debt-to-equity ratios, interest-coverage metrics, and upcoming loan maturities.
- **Dividend policy & restrictions.** Check for covenants tied to retained earnings, leverage caps, or lender consent.
- **Use of proceeds.** Funding operating losses or refinancing short-term debt is riskier than financing an expansion with clear payback.
- **Risk factors section.** Issuers must discuss liquidity constraints, regulatory headwinds, or sector-specific shocks.

Yes, a Philippine prospectus easily runs 150–250 pages. But scanning the executive summary, terms of the offer, financial statements, and risk factors often takes less than an hour—time well spent to avoid multi-year dividend droughts.

Tip: Print the PDF's table of contents, highlight the sections above, and read them before you look at the advertised yield.

3. Independent Assessment: Stress-Test the Narrative

After reading the prospectus, validate the issuer's story:

- **Compare industry peers.** Are similar companies generating stronger cash flows?
- **Watch quarterly disclosures.** Listed firms publish unaudited numbers within 45 days of quarter-end—check whether ratios are trending toward covenant breaches.
- **Review analyst reports.** Independent research from brokerage houses or investment analysts often provides a more candid assessment of the issuer's financial condition, governance, and outlook. These reports can highlight red flags not emphasized in company press releases.
- **Think through scenarios.** Ask, "If oil prices stay weak," or "if global chip demand softens," can the company still meet preferred dividends?

If your scenario analysis contradicts management's optimism, price that risk into your required yield—or walk away.

4. When In Doubt, Hire the Pros

Not every investor has the time or expertise to pore over financial statements and regulatory filings. That is precisely why open-end funds like Mutual Funds and UITFs, and managed accounts run by reputable professionals such as the member-institutions of the Fund Managers Association of the Philippines (FMAP) exist.

A licensed fund manager must:

- conduct formal due-diligence on every security it buys,
- diversify across issuers and industries,
- disclose portfolio holdings and performance, and
- abide by fiduciary and risk-management standards reviewed by both the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

For an annual management fee that is typically lower than a single missed coupon, you outsource the analytical heavy lifting and gain a margin of safety through diversification.

5. Regulatory Safeguards—Necessary but Not Sufficient

The SEC and the PSE require issuers to disclose material information such as the suspension of a dividend payment of preferred shares within one trading day. Enforcement actions, fines, and potential trading suspensions backstop these rules. Yet disclosure only *informs* investors; it does not *insulate* them from economic loss.

Regulation is a guardrail, not an airbag. The onus remains on each investor to understand what they own in relation to the risks they are willing to take.

BOTTOM LINE

Recent dividend suspensions are not black-swan events; they are foreseeable outcomes embedded in the terms of preferred shares. Investors who skimmed the glossy marketing slides but skipped the prospectus ignored three flashing warnings: board discretion, leverage trends, and sector-specific headwinds.

Read the prospectus, crunch your own numbers, or hire someone trustworthy to do it for you. In investing, boredom and diligence often beat excitement and regret.