Be Wary of These 5 High-Yielders

Description

There is a lot to like about the Canadian market. There is also a lot not to like. One of the items that falls squarely in the "dis-like" folder is the number of companies in this country that pay a dividend, even though they don't generate enough free cash to cover said dividend. This seems crazy to me and speaks to a desire by companies to post a yield for the sake of posting a yield, potentially to the detriment of their long-term well-being. Just ask Poseidon Concepts.

An article appeared in this morning's paper that helped solidify this issue. The article included five dividend stock picks from one of this country's more prominent income-oriented fund managers.

The first thing to point out is that the MER on the fund in question is 2.48%. This roughly equates to the current yield of the S&P/TSX Composite and means that to carry an *effective* yield that merely exceeds the Index, the fund must sport an average yield of more than 5% or so. When you have to fill your portfolio with stocks that yield north of 5%, you begin casting your line into some questionable waters. And that's just what appears to be going on with this fund.

Summarized below are the five picks included in the article. There is just one name that, over the past 5 years, has seemingly generated enough free cash to cover the cumulative dividend payments that have been made. We'll come back to this name however after the table. The worst offender by far is **Crescent Point** (TSX:CPG). Just to be clear, FCF here is calculated by subtracting capital expenditures from cash from operations.

Company Name	Current Yield	5 Yr. Total FCF	5 Yr. Total Divs	
Medical Facilities (TSX:DR)	7.4%	$219.9	$139.2	$8
Morneau Shepell (TSX:MSI)	5.6%	$188.4	$190.5	-$

Wajax (TSX:WJX)	7.8%	$230.4	$235.6	-$
New Flyer Ind. (TSX:NFI)	5.4%	$53.3	$107.5	-$5
Crescent Point	7.7%	$368.6	$1,729.6	-$1,36

Source: Capital IQ

Medical Facilities is seemingly the bright light of the bunch, however, there's something about this owner of U.S. surgery hospitals that skews the picture above. Medical Facilities is only a partial owner the hospitals it holds. It has partners, and every year, these partners extract a sizeable chunk of cash from the company. Over the past five years, these cash payments have amounted to $138 million. When this figure is added to the cumulative dividends above, our "Net" column moves to -$57.3 million. Just like all the others, Medical Facilities hasn't been able to cover its dividends with free cash.

Foolish Takeaway

Income funds are generally thought of as rather docile, but largely because of a crazy high MER, this fund manager has no choice but to go out the risk curve and pick stocks that are anything but. A few of these names sprinkled through a portfolio isn't necessarily a bad thing. A whole portfolio full however can lead investors to an outcome they may not be expecting.

For a collection of stocks that carry a more sustainable payout than ones mentioned above, simply **click here** to download our **FREE** report "**13 High Yielding Stocks to Buy Today**".

Fool contributor Iain Butler does not own any of the companies mentioned in this report. The Motley Fool has no position in any stocks mentioned at this time

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DR (Medical Facilities Corporation)
2. TSX:NFI (NFI Group)
3. TSX:VRN (Veren Inc.)
4. TSX:WJX (Wajax Corporation)

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