



## Should You be Looking to Gold Stocks for Yield?

### Description

Yes, you read that right. Currently, some of the sweetest dividend yields going (at least on paper) are found in one of the most unfathomable places imaginable – gold stocks.

Tabled below are the top 5 yields in the S&P/TSX Gold sector as of Wednesday's close. Before you soak your shirt drooling over these figures, keep one thing in mind — they're based on past dividend payments. More on this after the table.

Company Name	Dividend Yield
<b>IAMGOLD</b> ( <a href="#">TSX:IMG</a> )	6.5%
<b>Barrick Gold</b> ( <a href="#">TSX:ABX</a> )	5.4%
<b>Centerra Gold</b> ( <a href="#">TSX:CG</a> )	5.3%
<b>Nevsun Resources</b> (TSX:NSU)	5.1%
<b>AuRico Gold</b> (TSX:AUQ)	3.9%

Source: Capital IQ

### On the hook

Now let's look at another table. This one summarizes the annual cash required to support each of these dividends, and the free cash flow that each generated over the past 4 quarters.

While you're looking at this table, we'll ask that you keep another thing in mind. During the past 4 quarters, the price of gold averaged US\$1,653/oz. Gold is currently trading below US\$1,200/oz.

Company Name	4 Qtrs. FCF	Annual Dividend	Payout Ratio
IAMGOLD	-\$393.8	\$94.2	n/a
Barrick Gold	-\$1,232.0	\$800.0	n/a
Centerra Gold	-\$101.5	\$37.8	n/a
Nevsun Resources	\$111.0	\$27.9	25%
AuRico Gold	-\$368.4	\$39.5	n/a

Source: Capital IQ

Just one company generated free cash over the past 4 quarters! And even though cap ex across the board is expected to come down, it's not clear if it will come down enough to push future free cash into positive territory because of the decline in the commodity.

Look no further than this negative free cash situation for the reason behind these elevated yields. Dividends in this sector are on the chopping block.

Although Nevsun appears to be in the best shape of the bunch, the past 4 quarters aren't necessarily a reflection of this company's performance going forward. Nevsun is effectively shifting from gold to copper production and this could potentially impact the company's ability to cover its future dividend obligations.

And AuRico is an interesting case as well. The company is finally ready to enter a production phase and just introduced its dividend this past February as its cap ex program is essentially complete. AuRico will pay out a fixed dividend of \$0.16/share in 2013 but then it's going to move to a floating model. From 2014 on, 20% of the company's quarterly operating cash flow will be dedicated to paying the dividend. If cash flows are negative, there will be no dividend in that quarter.

### Foolish Takeaway

There will be dividend cuts in this sector, therefore please don't go investing in these companies because of their current yields. For many, they are not sustainable and probably should never have

been initiated in the first place. However, to soften the impact that these cuts could have, look for companies to adopt the AuRico model of a floating dividend based on operating cash, or some other variable. Big players **Newmont** and **Silver Wheaton** have also adopted a variable-dividend payout policy. A floating dividend instills some capital discipline on management and ensures the dividend is at least affordable. A mix that doesn't currently exist in the sector.

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*Fool contributor Iain Butler owns shares of Barrick Gold. The Motley Fool has no position in any stocks mentioned at this time.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:CG (Centerra Gold Inc.)
3. TSX:IMG (IAMGOLD Corporation)

## Category

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