



Is Just Energy's 9% Dividend Yield Too Good To Be True?

Description

With 4.6 million residential and commercial customers across North America, **Just Energy** (TSX: JE)(NYSE: JE) is a leading retailer of natural gas and electricity, and provides a host of home comfort services, including water heaters, air conditioners, furnaces, and smart thermostats. It currently operates in 19 of the 22 deregulated energy markets in Canada and the U.S.

For long-term investors, owning this stock has been a roller-coaster ride. Over the past three years, the company has lost over 40% of its value. However, the stock has performed better of late. So far this year, Just Energy is up 16% compared to 6% for the **S&P/TSX Composite Index** (TSX:^OSPTX). And over the past 12 months, Just Energy is up nearly 39%, three times better than the broader market. Today, the stock trades for around \$9, close to a new 52-week high.

Fantastic dividend

For income investors, it doesn't get much better than Just Energy. Annual dividends of \$0.84 per share provides current investors with a 9.3% yield.

However, the payout ratio during Just Energy's third-quarter, which ended December 31, 2013, was 80%, very high, but down from an unsustainable 126% a year earlier. And for the nine months ending December 31, the payout ratio was 114%. The key to long-term viability for Just Energy's dividend is an improving EBITDA — earnings before interest, taxes, depreciation, and amortization.

Improving EBITDA

EBITDA is an important figure for investors to watch, and a sign of improving financial health at Just Energy. A higher EBITDA will not only reduce the likelihood of a future dividend cut, but will also help reduce debt and fund future growth initiatives.

EBITDA for the most recent quarter was \$72.2 million, an improvement of 31% from the same period a year earlier. And management has reaffirmed its guidance for full fiscal year EBITDA of \$220 million, an improvement of \$45 million, or 26%, over last year.

This, and continued growth in EBITDA over the next few quarters, will reduce the payout ratio below 100% in 2014, and continue to lower it to levels where a dividend cut is unlikely. It will also help fund

debt reduction which is currently at an uncomfortably high level of 5.1 times EDITDA.

Foolish bottom line

Just Energy offers a very enticing dividend, but potential investor should be cautious. With a few more quarters of strong EBITDA growth underneath its belt, Just Energy can pay down debt and continue to fund its generous dividend — and regain some of its lost credibility with investors and analysts. Until then, investors should keep a close eye on Just Energy from the market sidelines, and consider comparable companies like **EnerCare** (TSX: ECI) or **Parkland Fuel Corporation** ([TSX: PKI](#)).

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:PKI (Parkland Fuel Corporation)

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