Dividend Stocks: The Good, the Bad, and the Ugly

Description

Not all dividends are created equal. Some are supported by stable, predictable earnings and cash flow. Others are more risky, and could be cut in the future. Even worse, there are some dividends that are clearly not sustainable. Given that the main goal of dividend investors is reliable, steady income, these distinctions are very important to make.

So with that in mind, below we take a look at three dividends: one is ideal for a dividend portfolio, another is on shaky ground, and the third should be avoided at all costs.

The good: Canadian Imperial Bank of Commerce

At first this may sound like a mistake. After all, isn't **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM) the bank that fell flat on its face during the financial crisis? Yes, it is — but for that very reason, it's also the most stable bank out of Canada's big five; after the scars left by the crisis, it has gone back to the basics, determined not to let history repeat itself.

As it stands, the bank has a dividend yield of 4.1%, not a bad number to start with. However, it also pays less than half of its earnings out to shareholders, meaning there's plenty of room for that dividend to be raised in the future. Furthermore, with solid banking operations in Canada and strong capital ratios, shareholders should be able to count on those dividends for years to come.

The bad: Penn West

Penn West Petroleum (TSX: PWT)(NYSE: PWE) certainly has had its share of struggles over the past year — despite a recent resurgence, its shares have returned only 2% over the past 12 months.

The company's problems are all too common in Canada's energy patch. A growth-first strategy backfired, leaving the company with numerous unwanted assets and too much debt on its balance sheet. The company also had a dividend it couldn't afford.

As a result, Penn West in recent months has been funding its dividend partly by selling these unwanted assets. It's not a strategy that can go on forever. You're better off not taking the chance.

The ugly: Just Energy

Just Energy (TSX: JE)(NYSE: JE) makes money mainly by selling natural gas contracts through door-to-door salesmen. The company has been repeatedly accused of aggressive sales tactics and selling something of no value to customers. The Better Business Bureau has given the company an "F" rating.

Just Energy is also unprofitable. However, that doesn't stop the company from paying out an enormous dividend, one it cannot come close to affording. As a result, the dividend has been cut twice in the past couple of years.

The dividend now stands at $0.50 per year, a yield of 8.1%. But don't be tempted. There are likely further dividend cuts down the road, and you don't want to be caught in the middle of them.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. TSX:CM (Canadian Imperial Bank of Commerce)

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