The Top 5 Dividend Yields of the S&P/TSX 60

Description

The **S&P/TSX 60**, composed of Canada's 60 largest publicly listed companies, is a haven for income-hungry investors with a number of juicy yields among its members.

But with greater rewards comes greater risk, and not all of those yields are created equal with some dividends more sustainable than others.

Let's take a closer look at the five juiciest yields in the index to see just how risky those dividends truly are.

1. Penn West Petroleum Ltd

Penn West Petroleum Ltd (TSX: PWT)(NYSE: PWE) has been bleeding red ink and has failed to get its house in order for some time. Now it's dealing with an accounting scandal and faces a number of potentially costly class-action lawsuits for misleading statements.

Yet the company continues to pay the juiciest dividend yield in the S&P/TSX 60, which at 6.6% is higher than many other participants.

But given the raft of problems the company is now facing, the impending West Texas Intermediate oil price crunch, faltering cash flow growth, and working capital deficits, it is difficult to see how it can sustain that monster yield. This is one dividend I would avoid.

2. Crescent Point Energy Corp

Light oil titan **Crescent Point Energy Corp** (TSX: CPG)(NYSE: CPG) remains a firm favourite among income-hungry investors with its dividend yield of 6%. But there are concerns about whether it will remain sustainable, as industry-wide fundamentals including oil prices continue to soften. Crescent Point has typically sustained this dividend through boosting production and cash flow by acquiring accretive assets.

But unlike many of its smaller peers, which have mimicked its dividend plus growth model, Crescent

Point owns a wide range of quality assets with low decline rates. This allows the company to cost-effectively grow production to boost cash flow even if there is a sustained downturn in crude prices.

This points to the company being able to sustain its dividend yield even if WTI prices fall to new lows because of growing U.S. light sweet crude production and the shale oil boom.

3. Canadian Oil Sands Ltd

Another favourite among income investors from the patch is **Canadian Oil Sands Ltd** (TSX: COS), with its juicy 6% dividend yield. The company is the largest investor in the Syncrude project, which converts bitumen to artificial light sweet crude, and typically trades at a premium to the benchmark WTI price.

This has the potential to offset many of the impacts associated with softer WTI prices and the looming price crunch, but the company continues to find itself stricken by growing operating costs and production outages. These factors are affecting its profitability and ability to grow cash flow through increased production.

These are threats to the sustainability of the dividend payment, but with the dividend representing 86% of net income, there is some fat allowing dividend payments to be maintained.

4. TransAlta Corporation

Canadian utility **TransAlta Corporation** (TSX: TA)(NYSE: TAC) has been bleeding red ink for some time, having reported a net loss for the last two consecutive years, yet continues to pay the fourth highest dividend yield in the S&P/TSX 60 at 5.7%.

While utilities are typically perceived by investors to be safe defensive stocks with reliable dividend payments, this is not my perception of TransAlta. It also reported a net loss for the second quarter 2014, with lower realized prices and pricing volatility being key drivers of that loss, though the company is still free-cash-flow positive.

Another concern is the need for ongoing significant capital expenditures for the development and maintenance of existing assets, but this should wind down over time.

When the wide economic moat enjoyed by utility companies is considered in conjunction with these factors particularly remaining free-cash-flow positive despite reporting a net loss, TransAlta’s dividend appears sustainable. But my preferred utility company is **Fortis Inc.** (TSX: FTS), because despite its dividend yield of 3.8% being substantially lower than TransAlta’s, it has a sustainable payout ratio of 84%.

5. BCE Inc.

The final company to round out the five largest dividend yields on the S&P/TSX 60 is telecommunications giant **BCE Inc.** (TSX: BCE)(NYSE: BCE) with its tasty dividend yield of 5%.

The company remains one of my preferred dividend stocks, because of its dominant market position and multifaceted economic moat, which continues to protect revenue growth from competition.

More importantly, BCE continues to grow its net earnings, while maintaining solid free cash flow growth all of which points to the further sustainability of its dividend.

Clearly Crescent Point Energy, Canadian Oil Sands, and BCE have a place in the portfolios of income-hungry investors. Particularly when their multifaceted economic moats are considered in conjunction with the financial stability that comes with their size.

CATEGORY

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TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)
2. TSX:FTS (Fortis Inc.)
3. TSX:TA (TransAlta Corporation)
4. TSX:VRN (Veren Inc.)

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