Don’t Take the Dividend Bait: Avoid TransAlta Corporation, Lightstream Resources Ltd., and BCE Inc.

Description

In Canada, it’s not too difficult to find stocks with a big yield. In fact, they’re seemingly everywhere. But not all of these dividends are worth pursuing. In fact, many of them are simply unsustainable.

With that in mind, here are three companies with big dividend yields that you should be avoiding.

1. TransAlta Corporation

It’s sure been a rough ride for shareholders of **TransAlta Corporation** (TSX: TA)(NYSE: TAC), with the shares down by about 50% over the past three years. This is particularly worrying for a utility, a sector most often considered stable.

And if there was any confusion, CEO Dawn Farrell cleared it up, by saying some investors see the company as a “utility with predictable, regulated assets, when it’s not.” Investors should certainly believe this statement — to illustrate, earnings before interest, taxes, depreciation and amortization dropped by 95% in the most recent quarter from a year ago.

Making matters worse, TransAlta has a very scary balance sheet, with $4 billion in debt. And it makes most of its money from coal, which could spell big trouble. So is this really what you want from a dividend investment? If not, you should stay away from this 6.1% yield.

2. Lightstream Resources Ltd.

While TranAlta shareholders have done poorly, the news has been even worse for **Lightstream Resources Ltd.** (TSX: LTS), whose shares are down by about half since June. Part of this drop is due to falling production guidance. But there are also signs the company is turning itself around — for example, the company recently closed a $378 million asset sale to **Crescent Point Energy Corp**. The funds will likely be used to pay down debt.

Lightstream also looks tempting because of its dividend, which currently yields a staggering 10.4%, even after a 50% cut in November of last year. But don’t be tempted; the company cannot come close to affording this dividend, with negative earnings, negative free cash flow, and $2 billion in debt.

Granted, this stock could skyrocket if the company turns around successfully. But this kind of bet isn't suitable for a dividend portfolio.

3. BCE Inc.

One must admit it's a little unfair to include **BCE Inc.** (TSX: BCE)(NYSE: BCE) in a list with TransAlta and Lightstream. But this is still a dividend you should stay away from, despite its 5.2% yield.

There are a couple of reasons for this. For one, the company has very few growth prospects. It has not been adding wireless customers fast enough to offset the decline of its landline business, and for that reason its subscriber count is slowly dwindling. New government regulations, such as the one eliminating three-year contracts, are also creating a headwind.

Secondly, BCE trades at a stiff 18 times earnings, which is higher than its two big competitors. So while you're unlikely to face a dividend cut, this stock offers very little other than its payout.

BCE is certainly the best dividend stock in this list. But there are still better options. Three are profiled in the report below.

CATEGORY

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2. NYSE:TAC (TransAlta Corporation)
3. TSX:BCE (BCE Inc.)
4. TSX:TA (TransAlta Corporation)

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