



## Top 5 Dividend Yields of the S&P/TSX 60: Which to Buy and Which to Avoid

### Description

The rout in crude prices over the last three months has forced a number of companies operating in the energy patch to slash their dividends. This has firmly brought the spotlight back on the risks associated with high dividend yields and their sustainability. Typically, investors do not associate these risks with Canada's 60 largest publically listed companies, which make up the **S&P TSX 60 Index**.

However, there are justifiable concerns that even some of these dividend yields may in fact be unsustainable. Let's take a closer look at the top five dividend yields in the S&P TSX 60 to determine their sustainability:

#### 1. Canadian Oil Sands Ltd. (TSX:COS)

Even after slashing its dividend at the end of last year by 43%, **Canadian Oil Sands** still takes the top spot with a monster yield of 17%. But as the price of oil drifts lower, even this revised dividend payout appears questionable. You see, the company's revised guidance assumed a 2015 oil price of US\$75 per barrel. At a price that has plunged under US\$50 per barrel, the company will have insufficient free cash flow to meet its revised dividend payment.

#### 2. Crescent Point Energy Inc. (TSX:CPG)(NYSE:CPG)

Second spot is snared by **Crescent Point Energy Inc.** with its monster dividend yield of 9.6%. Although some question the company's payout, I believe it is sustainable at this time despite the rout in crude prices. The company has cut capital expenditures as well as operating costs in order to maintain cash flows and the dividend payment.

It has also hedged over 50% of its 2015 oil production at an average price of \$90 per barrel, which in conjunction with lower expenditures will help to preserve cash flow and protect the dividend.

#### 3. TransAlta Corp. ([TSX:TA](#))([NYSE:TAC](#))

Diversified energy utility **TransAlta Corp.** takes third spot with a juicy 6.5% yield. For some time now there has been concern regarding the sustainability of its dividend. This is because the company has

been bleeding red ink for the last two years due to legacy issues that required remediation at a number of its older power stations.

But it now appears to have turned the corner, with it entering into a number of strategic initiatives to boost revenue, as well as shoring up its balance sheet. This should see its tasty yield remain sustainable with many of those strategic initiatives set to come online and start producing revenue between now and 2017.

#### **4. Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK)**

The fourth highest dividend yield in the index is **Teck Resources Ltd.'s** 6.4%. Questions over its sustainability swirl as the company continues to battle lower metallurgical coal and copper prices that are set to fall further because of weaker economic growth in China.

#### **5. ARC Resources Ltd. ([TSX:ARX](#))**

Midcap oil and gas company **ARC Resources Ltd.** wraps up fifth place with a 5% yield. Unlike many of its peers in the patch it has yet to cut its dividend, despite significantly lower crude prices.

It also recently announced a bought deal that will see it issue 15.5 million common shares at \$22.55 each. The proceeds will be used to reduce debt, boost working capital and fund ongoing capital expenditure. This along with a reduction in capital expenditures should provide it with breathing space to weather the current rout in crude prices. But if the oil price remains depressed for a sustained period, ARC Resources will more than likely be forced to reduce its dividend.

Clearly, even large listed companies are not immune to being forced to cut in adverse operating conditions. This makes it imperative that investors seek out companies with sustainable dividends and an operating model which can survive a concerted economic or market downturn.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. NYSE:VRN (Veren)
4. TSX:ARX (ARC Resources Ltd.)
5. TSX:TA (TransAlta Corporation)
6. TSX:TECK.B (Teck Resources Limited)
7. TSX:VRN (Veren Inc.)

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**Author**

mattdsmith

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