Should You Invest in Any of the TSX 60's Top Dividend Yielders?

Description

When investing, it's usually a big mistake to simply go with the highest dividend yields. After all, these payouts usually come from companies that are on shaky ground, and their high dividends are often unsustainable. Just look at what's happened with energy companies over the past three months.

To illustrate this point further, let's take a look at the **S&P/TSX 60's** top three yielding companies.

1. Crescent Point Energy

Coming in at number one on this list is **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), a favourite among dividend investors. And it's easy to see why. Crescent Point pays investors $0.23 per share per month, good enough for an 8.7% yield (as of this writing).

But upon closer inspection, there are some things to be worried about. First of all, the adjusted earnings was less than $1 per share over the past four quarters, not nearly enough to cover a $2.76 per year dividend. So, to help cover the payout, Crescent Point offers incentives to shareholders to take their dividend in shares rather than cash. As a result, the share count keeps growing. This not only dilutes everyone's stake, but it also makes the dividend difficult to grow. In fact, Crescent Point's dividend hasn't been raised since 2008.

To make matters worse, the oil slump will make the dividend that much harder to sustain. For now, Crescent Point can hold on thanks to efficient operations, a clean balance sheet, and a strong hedging program. But if the slump persists longer than expected, the dividend may be in trouble.

2. TransAlta

Coming in at number two is power generator **TransAlta Corporation** (TSX:TA)(NYSE:TAC). The company has a 5.9% dividend yield, even though the payout was cut by 38% this time last year.

Needless to say, TransAlta has had its share of ups and downs, something that CEO Dawn Farrell put very succinctly last year when she said, "some investors see the company as a utility with predictable regulated assets, when it's not." Last year alone offered plenty of examples of downs, including the dividend cut, price-fixing allegations, and two quarters of losses.

To give the company credit, it has done better recently and reported strong results last week. But this is still a very volatile company, and Ms. Farrell has admitted that the dividend probably won't be raised for a while.

3. ARC Resources

Coming in at number three is energy producer **ARC Resources Ltd.** (TSX:ARX), whose $0.10 monthly dividend is good enough for a 5.0% yield.

ARC has a lot of things in common with Crescent Point. It has excellent assets, a history of solid growth, and a strong hedging program. But once again, there are concerns. Net income has not been high enough to cover the dividend, and neither has free cash flow. And the oil rout will make this dividend that much more shaky.

So, if you're looking for solid dividends, don't get greedy. Just take a lower yield, and you'll have less to worry about.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:VRN (Veren)
3. TSX:ARX (ARC Resources Ltd.)
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