Are the Top Five Dividend Yields of the S&P/TSX 60 Sustainable?

Description

Since the oil rout triggered a range of dividend cuts across the energy patch, the top five dividend yields on the **S&P/TSX 60 Index** have changed markedly. Not all dividends are created equal. While investors may believe that since these companies are among the 60 largest publicly listed companies, their dividends are safe, but that it not always the case.

Let's take a closer look at the top five to see whether they are sustainable.

Now what?

With the exception of utility TransAlta Corp., the top five dividend yields are dominated by commodities producers.

Company	Market Cap	Dividend Yiel
Crescent Point Energy Corp.	$13B	9%
TransAlta Corp.	$3B	6%
ARC Resources Ltd.	$7B	5%
Cenovus Energy Inc.	$16B	5%
Teck Resources Ltd.	$10B	5%

Source data: Yahoo Finance.

The top spot is held by **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and there are concerns that it won't be able to maintain its monster yield because of the oil rout. It has hedged a considerable portion of its 2015 and 2016 oil production at an average of well above $80 per barrel. This, coupled with the financial flexibility offered by its strong balance sheet, sees the dividend remaining sustainable.

TransAlta Corp. (TSX:TA)(NYSE:TAC) has been bleeding red ink as it has battled to bring legacy transmission and power generating infrastructure up to date. However, with a strong balance sheet and recently improved financial results, the darkest days appear to be behind it. This bodes well for the sustainability of its dividend.

ARC Resources Ltd. (TSX:ARX) is another energy company that is capable of supporting its dividend yield despite the oil rout. It has a solid balance sheet that provides it with a degree of financial flexibility that many of its peers lack. This gives it some insulation from sharply lower oil prices, although that scenario could change, should they stay low for a sustained period.

Cenovus Energy Inc. (TSX:CVE)(NYSECVE) has taken a range of measures to ensure that it is capable of weathering the current storm in the oil industry. These include significantly cutting costs and shoring up its balance sheet. Significantly weak crude prices are also a boon for its refining division, which is expected to deliver better-than-expected results this year. For these reasons, I believe that its dividend is sustainable.

The final spot is held by metallurgical coal and base metals miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). While it is feeling the pressure of sharply lower commodity prices because of China's slowing economy, it still remains profitable. It also has a solid balance sheet and a high degree of liquidity. This bodes well for the sustainability of its dividend, but if commodity prices fall for a sustained period, the story could be very different.

So what?

Despite all five companies having payout ratios of 100% or greater, each of their dividends appear to be sustainable at this time, with Crescent Point offering the juiciest yield. However, it is utility TransAlta that offers the safest yield, with the other companies battling considerable headwinds generated by softer commodity prices.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/22
Date Created
2015/03/30
Author
mattdsmith