Are These 3 7%+ Dividend Yields Sustainable?

Description

With so many Canadians retiring in the next few years, investors will be looking to convert their savings into income. This leads to a familiar trade-off: do you go for lower-yielding investments, which have less risk and higher growth prospects? Or do you go for something with a higher yield, and hope for the best?

Below we'll take a look at some higher-yielding securities, and try to answer the all-important question: how safe are they?

1. Crescent Point Energy

With a yield of more than 10%, it's no wonder that **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is so popular with income investors. But is this dividend sustainable? After all, a bunch of other high-yielding energy companies have cut their dividends in the past 12 months.

In the near future at least, Crescent Point's dividend is in no danger. The company has a rock-solid balance sheet, with only $3.5 billion in net debt (less than 30% of its market value). Better yet, the company has hedged over half of its remaining 2015 production at prices in the high US$80s. Crescent Point also has very high-quality reserves, allowing the company to stay profitable even at today's prices.

Longer term, the outlook is a little more worrying. Thanks in part to a generous dividend reinvestment plan, the share count keeps rising. This could make the dividend more difficult to pay, especially if oil prices don't recover. At the end of the day, you should think of this as an oil stock, rather than a dividend stock.

2. TransAlta

TransAlta Corporation (TSX:TA)(NYSE:TAC) shareholders have been hit by a string of bad news over the last couple of years. Low power prices in Alberta and the Pacific Northwest have hurt cash flow. The dividend was slashed at the beginning of last year. And just last month, the NDP won a majority in Alberta.

The NDP win has slammed TransAlta's stock price recently, sending its shares from more than $12 to less than $10. Consequently, the company's dividend now yields more than 7%. Is it safe, especially after being slashed so recently?

Once again, the dividend appears safe in the short term. TransAlta is protected in part by Power Purchase Agreements (PPAs), which guarantee the price on 80% of energy delivered until 2018.

And Ms. Notley's apparent desire to phase out coal by 2030 shouldn't hurt TransAlta. The company is already planning to retire most of its coal plants by then anyways. And the one remaining plant, Keephills 3, has advanced pollution controls and lower emissions.

Still though, power prices remain the big risk, and could result in a dividend cut down the road. Income investors should tread carefully.

3. Dream Office REIT

REITs are a great place to look if you're searching for high yields, and **Dream Office REIT** (TSX:D.UN) is no exception. The company owns 176 office properties across Canada, making the company nice and diversified. And with a dividend yield of 9%, income investors should be very interested.

It gets better. Dream pays out only about 80% of funds from operations to shareholders. Thus even if there's a hiccup in the bottom line, the dividend should remain affordable.

So if you're looking for a large, sustainable dividend, Dream seems to be the best option of the three. And if you're looking for more dividend stocks, the free report below reveals three excellent ideas.

CATEGORY

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TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:VRN (Veren)
3. TSX:D.UN (Dream Office Real Estate Investment Trust)
4. TSX:TA (TransAlta Corporation)
5. TSX:VRN (Veren Inc.)

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