# Not All 5% Yields Are Equal

## Description

As a dividend investor, one of the first things I look at when deciding on an investment is the yield that it offers today. However, it's essential to be aware that not all yields are the same, even if the companies are paying the same yield percentage.



As an example, I will focus the discussion on four different companies that are paying or have paid, more or less, a 5% yield.

**Real estate investment trust examples**

You can receive rent by doing nothing but buying shares of real estate investment trusts (REITs). However, even within REITs, there are differences in where their yield comes from.

**Calloway Real Estate Investment Trust** (TSX:CWT.UN) is a retail REIT. It focuses on value-oriented retailers, including the strongest national and regional names, as well as strong neighborhood merchants.

After acquiring SmartCentres and rebranding to SmartREIT, at which time the ticker will change to SRU.UN, 27% of Calloway's gross rental revenues will come from **Wal-Mart.** In other words, Calloway has some strong tenants that are backing up its 5.3% yield.

On the other hand, **Plaza Retail REIT** (TSX:PLZ.UN) is a leading retail REIT in eastern Canada. It owns over 300 properties in the forms of strip plazas, single-use properties, and enclosed malls.

Plaza is more growth oriented, with interests in 18 properties under development at the end of March 2015. As a result, the company has been able to increase its distribution for 13 years in a row. In the last five years it has increased its distribution by a compounded annual growth rate of 5.6%. Today it yields an impressive 5.8%.

Still, both REITs will likely be negatively affected by the interest rate hike when it occurs.

### Energy company example

At $24, **Husky Energy Inc.** (TSX:HSE) yields 5%. As an integrated oil & gas company, its business performance is highly dependent on oil prices. In fact, it cut its dividend by 40% in 2009. Since then, its dividend has remained steady at $0.30 per share per quarter. However, if the oil price remains low, or worse, goes lower, it’s possible the company could cut its dividend again.

### Mining company example

Before slashing its dividend by 67% this year, **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) yielded well over 5%. So, looking back in hindsight, Teck’s 5% yield certainly doesn’t match up to the REITs’ 5% yields.

Just like Husky, Teck Resources’s business performance is dependent on commodity prices. Teck has no control over how much they sell their commodities for. When the commodities are priced low, the company has no choice but to earn less, or maybe even lose money if there’s a mining cost overrun.

### In conclusion

Don’t jump on a stock just because it has a nice yield. Look into how the business makes money and whether its earnings are stable or not. Remember, a healthy dividend must be backed by good business performance.



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1. Editor's Choice

### TICKERS GLOBAL

1. NYSE:TECK (Teck Resources Limited)
2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)
3. TSX:TECK.B (Teck Resources Limited)

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