These 2 Great Dividends Could Be too Good to Be True

Description

[*Editor's note: This article has been updated to correct an error.]*

In theory, every investor has the same goal: to go to sleep with more money than what they woke up with.

In practice, each investor goes about this in different ways. I'm a value investor, meaning I look to buy $1 worth of assets for $0.50. Other investors are more concerned with buying the best quality businesses they can find. Still others are convinced the answer to winning stocks lies in graphs and momentum charts.

Perhaps the biggest subsection of individual investors are those who are primarily interested in income. While most keep their dividend expectations modest, some inevitably start to reach for yield, convinced they can choose the winners among the high yielders.

There are safe—at least, relatively speaking—high yielders out there, but they're in the minority. Most stocks yielding 7%, 8%, or even 10% are risky, or else they wouldn't have such high yields. Here are two stocks that I believe will have to eventually cut their attractive payouts.

Crescent Point

Unlike almost every one of its high-yielding energy peers, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) has been able to keep its $0.23 per share monthly dividend intact throughout this latest storm to hit the energy market. The company's management was smart enough to hedge a good portion of its 2015 and 2016 production while prices were higher, which should help smooth out earnings somewhat.

But even still, the market seems skeptical that Crescent Point can maintain the dividend, since shares are currently yielding an eye-popping 14.9%. In a world where the average GIC rate comes in between 1% and 2%, it's clear why investors are attracted to it.

But looking at the numbers, it's obvious Crescent Point needs a little help in being able to sustain the payout. In 2015 management estimates it'll generate about $1.6 billion from operations. Subtract the $1.45 billion in capital expenditures the company has planned, and it'll have $150 million available to pay dividends. The problem? In 2014 the company paid out about $225 million in dividends, and it has issued about 50 million more shares in the meantime.

Essentially, Crescent Point is issuing shares and debt to pay for dividends. That can't continue forever.

Student Transportation

Student Transportation Inc. (TSX:STB)(NASDAQ:STB) has long been a favourite of income investors because of its simple business model and nearly 10% dividend.

But the company hasn't earned enough to pay the distribution in years. Since 2011 the company has only earned $24 million in free cash flow, but has paid out $122 million in dividends. Like Crescent Point, it has made up the shortfall by a combination of issuing new shares and debt.

Student Transportation recently changed the currency in which it pays dividends, going from $0.0464 per share monthly in Canadian dollars to $0.0367 monthly in U.S. dollars. But even at this lower payout, the company still doesn't earn nearly enough to maintain the new dividend. It might not happen right away, but income investors should brace themselves for a cut in Student Transportation's generous dividend in the future.

Investors who venture into the world of high yield have to be careful. It's like a minefield out there. Yes, there are some high yielders with good, sustainable yields. I just don't think Crescent Point or Student Transportation are among them.

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nelsonpsmith