Like Big Dividends? These 3 Stocks Yield at Least 9%

Description

Generally, the higher a stock's yield, the greater risk it's perceived to have.

On the surface, this makes total sense. Collectively, everybody in the market is pretty smart. When the market is telling you something, chances are you should listen. In a world where a five-year GIC commonly yields under 2%, something with a 9% payout isn't regarded as safe.

But at the same time, I'm not ready to discount these huge dividend payers completely. Yes, I'm the first to admit they're risky. But stocks that yield at least 9% are often undervalued on a price-to-earnings or a price-to-book-value basis. And even if the dividend gets cut by 25 or 50%, investors are still getting a generous yield if the unthinkable happens.

It comes down to analyzing the financial statements to see whether or not the dividend is sustainable. Obviously, cash flow can take a hit and change the thesis, and sometimes with little warning, too. But other times, a company can maintain a 9% dividend for years. And sometimes such a big yield is offered by a company facing temporary issues. Once the issues are taken care of, the dividend is fine.

Here are three 9% yielders I find interesting in today's market.

Dream Office

I'll admit I was early on **Dream Office Real Estate Investment Trust** (TSX:D.UN). I bought shares at just over $26 each earlier this year. They're currently trading at $20.60 each.

But there are still plenty of reasons to like Dream.

The company has a book value of $33.64 per share, which means shares trade at just 61% of book value. It recently made the move to internalize the management team, meaning the execs will be working full time on Dream Office issues, rather than with other projects. And although occupancy numbers are down a little because of weakness in Calgary, Dream is still able to post numbers that are better than most of its peers.

The company's shares currently yield 10.9%, a dividend that sure looks to be sustainable. Over the first six months of the year, Dream posted funds from operations of $1.43 per share, while paying out a distribution of $1.12 per share. Even after adjusting for certain items, Dream posted $1.27 per share in adjusted funds from operations, while paying out $1.12 per share.

Corus Entertainment

Corus Entertainment Inc. (TSX:CJR.B) shares have been hit by a double whammy of bad news. Not only are millennials moving away from having cable, but the CRTC will force cable providers to allow customers the ability to pick and choose their own cable packages for a reasonable cost starting in late 2016.

And even though it's fighting a tepid economy–which is affecting ad spending–the owner of channels like Treehouse, YTV, CMT, and Teletoon is still a free cash flow machine. After adjusting for various non-cash write-offs, the company earned $194 million in free cash flow in fiscal 2015. That's a very inexpensive multiple for a company with a current market cap of just over $1.05 billion.

Corus shares are so low, it pays a 9.1% dividend. Amazingly, even at that yield, dividend payments only totaled $76.2 million over the last 12 months. That's a payout ratio of less than 40% of free cash flow, which is almost unheard of for a stock yielding more than 9%.

Veresen

Because **Veresen Inc.** (TSX:VSN) is the smallest publicly traded pipeline in Canada, investors are nervous about its prospects.

But from a dividend perspective, the company looks to be in good shape. Through the first six months of 2015, it generated $103 million in free cash flow, while paying out just $61.7 million in dividends. A 60% payout ratio is attractive, especially for a company that pays a 9.2% dividend. This was aided by the company's dividend-reinvestment plan, which gives shareholders a 5% discount in exchange for taking their dividends in the form of more shares.

Veresen is also poised to take advantage of a massive trend, exporting liquefied natural gas. One of the company's main assets is a natural gas pipeline in the United States called the Ruby Pipeline. A proposed extension of Ruby would supply Jordan Cove, a proposed LNG terminal in Oregon. That's an intriguing growth possibility.

Combine the potential growth and getting paid more than 9% to wait, and it's easy to make a case for Veresen shares.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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