Dividend Investors: Can You Count On These 6%+ Yields?

Description

Chances are, if you're reading this article, you're a fan of dividend-paying stocks.

You're not alone. There are millions of Canadian investors who are using dividend payers as the bedrock of their portfolios. These stocks are often the *crème de la crème* of Canadian companies, with payouts that are almost as secure as any GIC or government bond. They might not be guaranteed, but they sure look solid.

Then there are other dividend stocks, companies that have a slightly higher yield. These can be used to really boost a retiree's income or to help someone without much capital have a more secure retirement. Often, these stocks yield anywhere from 5-7%; yields that are higher are perceived as being real danger zones.

Not all of these high yields are created equal. One 6% dividend can be much more secure than another, depending on a multitude of factors.

Let's take a closer look at the sustainability of three of the market's more popular 6%+ yields.

Crescent Point

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) paid the same $0.23 per share monthly dividend since 2008. This, combined with the company's explosive growth, made it a popular choice among income investors.

Unfortunately, the price of crude crashed, along with Crescent Point's stock price. And, more importantly to income investors, the company was forced to slash the dividend, reducing the monthly payout to $0.10 per share. The current yield is 7.1%.

Management thinks the new dividend is sustainable even with crude prices lower, but I'm skeptical. Through the first nine months of 2015, the company generated $1.43 billion in cash from operations, while spending $1.24 billion on capital expenditures. That leaves $200 million in free cash flow for dividends.

The problem is that dividends over the same period came to nearly $600 million. Even after accounting for the dividend cut, the company is still on the hook for some $50 million per month in dividends. The reason for the amount not going down much is because many investors were taking their dividends in the form of new shares. The company suspended this program when it cut the dividend.

If crude recovers, Crescent Point's dividend may end up being okay. But if the commodity remains low, I see another dividend cut in 2016.

H&R REIT

H&R Real Estate Investment Trust (TSX:HR.UN) is one of Canada's largest REITs. It owns some 310 different properties in Canada and the U.S., accounting for more than 43 million square feet of retail, office, industrial, and residential space. The company also owns a 33.6% interest in Echo Realty, which owns 8.6 million square feet over 201 properties.

Like many other REITs, H&R has been a poor performer of late, falling 6% over the last year. Investors are concerned about possible interest rate increases and weakness in the Alberta market affecting H&R's bottom line.

Thus far in 2015, those fears have been unfounded. Through the first three quarters of 2015, the company has generated $1.46 per share in funds from operations, while paying out just $1.01 per share in distributions. That puts the payout ratio at just 69.2%, which is extremely low for a REIT with a dividend of 6.5%.

H&R is diverse enough that even some serious weakness in the Alberta market would be unlikely to affect the dividend.

IGM Financial

IGM Financial Inc. (TSX:IGM) is one of Canada's largest wealth managers. It operates the Mackenzie Investments brand and employs an army of Investors Group investment advisors.

The issue with the company is the future of the mutual fund industry. Regulations coming into play in 2016 will force advisors to disclose the cost of owning a fund to clients in dollar terms rather than just using a percentage. Critics of the industry think this will lead more investors to choose cheaper options like ETFs.

But from an earnings perspective, IGM still makes enough to cover the generous 6% yield. Over the last 12 months the company has earned $2.99 per share while paying out $2.12 in dividends, which works out to a payout ratio of 71%.

The issue is the security of these earnings. Although the trend towards lower-priced investment products is obviously there, Investors Group is a great brand. If any company can convince folks to pay more for advice, it's Investors Group. Ultimately, time will tell.

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