Can These 4 Stocks Maintain Their 10%+ Dividends?

Description

If we all like dividends then we should like big dividends even better, right?

Perhaps, but it's not quite that simple. Often, a stock has a huge dividend because the market doesn't think the yield is sustainable. Other times, a stock with a big yield will symbolize a business in decline, or at least one that isn't growing any longer. Even if a business can maintain a 10% yield, it doesn't usually leave much in excess earnings to use to grow the business.

Still, these big yields can be useful, especially for folks who are looking for income. Just one or two stocks yielding 10% can really supercharge the yield of a whole portfolio. And even if a 10% yield gets cut, the new payout is usually still pretty generous.

Can these four stocks maintain their 10% yields? Let's have a closer look.

Dream Office

Dream Office Real Estate Investment Trst (TSX:D.UN) is one of Canada's largest owners of office space with a portfolio of 174 different properties spanning more than 23 million square feet in total leasable area. Approximately 35% is located in western Canada, and the company has an occupancy rate of 92%.

Western Canada is a big area of concern for investors. Dream has several large office buildings in downtown Calgary, which is seeing layoffs and cutbacks like crazy. Investors are concerned that leases in the city won't be renewed, causing a drop in income that would ultimately lead to a cut in the dividend.

But so far this isn't the case. Through the first three quarters of 2015, Dream posted total adjusted funds from operations of $1.88 per share, while paying out $1.67 in distributions. That's a payout ratio of 89%. Dream is also buying back shares aggressively, which will help bring the payout ratio down going forward.

Student Transportation

I’ve been bearish on **Student Transportation Inc.** (TSX:STB)(NASDAQ:STB) and its ability to pay its generous 10.6% yield in the past. It just doesn’t earn the free cash flow needed to pay a sustainable dividend.

For the full year that ended on June 30, the company appeared to be turning a corner. It posted a positive free cash flow for the first time in years, generating some US$26 million. That’s still not enough to pay the US$33 million it gave to shareholders in dividends, but at least the company is going in the right direction.

Student Transportation is growing aggressively and acquiring new routes takes a certain amount of capital. Traditionally, the company has either borrowed or issued shares to fund this growth and the high dividend. This is not the kind of business that should be putting such an emphasis on paying shareholders.

Liquor Stores

Liquor Store N.A. Ltd. (TSX:LIQ) is Alberta’s largest operator of liquor stores. It also has operations in B.C., Alaska, Kentucky, and has announced a recent acquisition in New Jersey.

As with Student Transportation, I’m puzzled as to why this company would pay such a lofty distribution. Shares currently yield more than 12%, and free cash flow is negative thus far in 2015. The only reason why the company has been able to maintain its dividend is because it borrowed nearly $35 million.

And with just $3 million in cash on hand–barely enough to pay one month’s dividend–I don’t like its chances to keep paying going forward, especially considering the weakness in Alberta’s economy.

Directcash

Directcash Payments Inc. (TSX:DCI) is a free cash flow machine that doesn’t get any respect.

The market is bearish on the ATM business, even though recent results showed the number of transactions from the company’s fleet of ATMs actually went up compared with last year. I suspect the market doesn’t care for the debt the company took on to fund its big Australian acquisition either.

But at this point, the dividend is about as safe as you’re going to get, at least for a company yielding more than 12%. Through the first nine months of the year, it generated $42 million in free cash flow, while only paying out $19 million in dividends. That’s a payout ratio of less than 50%, which is almost unheard of for a stock with a double-digit yield.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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Date
2025/07/08
Date Created
2015/11/30
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