Are These 10%+ Dividends Safe?

Description

In 2016, it's tough to be an income investor.

Interest rates continue to be stubbornly low. We live in a world where a 3% promotional rate from a bank is exciting enough to make headlines. While that might not be a bad spot to stick your emergency savings, getting ahead while getting 3% each year on your money is difficult.

When it comes to income from stocks, many investors have a simple rule of thumb: any yield under 5% is safe. Anything over that amount is suspect.

Unfortunately, life isn't that simple. Sure, there are plenty of high yields that are unsafe. But there are also plenty of stocks that have paid dividends of 6-10% for years now with hardly a hiccup. Thanks to the recent market selloff, these stocks are now selling for bargain-basement prices. In turn, this has pushed up yields to the double-digit range.

Let's take a look at four stocks that yield at least 10% and see just how safe those distributions really are.

Dream Office

Dream Office Real Estate Investment Trst (TSX:D.UN) is Canada's largest pure-play office space REIT, owning more than 23 million square feet of leasable space over 174 different properties. Occupancy is currently running in the 91% range.

Shares have gotten hammered lately on fears that weakness in the Calgary market will lead to a dividend cut. The current dividend is $2.24 per share annually, making the current yield 14.6%. In 2016, analysts predict Dream will earn $2.25 in adjusted funds from operations, which puts the payout ratio at a very high 99%.

In short, there is a risk the dividend could get cut in 2016, especially if we see continued weakness out west.

But at the same time, I can easily see a scenario where Dream's dividend continues uninterrupted. Since so many investors take their dividends in the form of more shares, Dream's cash-payout ratio is closer to 70%. That's good news, at least temporarily. Over the long term that kind of steady dilution can make it even more difficult to pay dividends.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is another REIT with a very high dividend. Shares of Quebec's largest landlord yield pretty much exactly 10%.

Cominar is well diversified and holds retail, office, and industrial properties. The company took on a bit of debt in a recent acquisition, but management has made it a priority to get the balance sheet under control. This debt, combined with Cominar's high payout ratio of 95% of funds from operations, makes investors nervous that the dividend could be cut.

At this point, it's hard to say. The balance sheet is improving, occupancy is stable, and management is buying back shares. On the flip side, continued weakness in Quebec could lead to the payout ratio getting over 100%.

Gamehost

Gamehost Inc. (TSX:GH) is a small Alberta-based casino operator with three casinos and a hotel. It pays an enticing 10.7% dividend.

Like anything related to Alberta's consumer, shares of Gamehost have been hammered over the past year, falling more than 35%. But the company has continued to keep on chugging along, posting $0.90 per share in profits over the last year–not bad for a stock only trading at $8.20.

Free cash flow looks even more impressive. The company is on pace to deliver $35 million in free cash flow for 2015, while only paying out $21 million in dividends. That's the kind of wiggle room we're looking for. I think Gamehost's dividend is safe.

Veresen

Veresen Inc. (TSX:VSN) often gets overlooked as investors focus on Canada's larger pipeline companies. This is one of the reasons why shares currently have a 12.5% yield.

The company recently released its 2016 guidance, and management seems to be convinced the dividend is safe. Based on an exchange rate of CAD$1.35 to every U.S. Dollar–the current ratio is more like CAD$1.41 to US$1–Veresen can be expected to earn $1.08 per share in distributable cash. Meanwhile, the dividend is $1 annually.

Things don't look so bad for Veresen. If the exchange rate gets stronger, it's likely good news for the price of crude and natural gas. If commodities stay weak, earnings go up simply because of currency. And at just 7.4 times distributable cash, it appears that shares are a nice bargain for long-term investors.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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