Investors: Can You Count On These 8% Dividends?

Description

Although there have been numerous warnings over the years about chasing yield, shares of companies with extra generous dividends continue to be popular with investors.

There are a few simple reasons why. Naive investors don't think their dividends are at risk even when the market is telling them something completely different. Some retirees just don't have enough saved, which forces them to either go without or try to find more yield. Others use a high yield as a contrarian buying indicator. A high yield could indicate the stock is a good value.

Investors will always be searching for yield. Determining whether the income is safe is another story. There's no way to predict with 100% certainty, but we can gauge a lot from a company's financials.

Here is a closer look at three high-yielding stocks that are popular with Canadian investors.

Russel Metals

Metaux Russel Inc. (TSX:RUS), more commonly known as Russel Metals, is one of Canada's largest metals distribution and processing companies. It produces metal products for the construction, oil and gas, and manufacturing sectors.

Business was slow in 2015. The company reported $3.1 billion in revenue for the year compared to nearly $3.9 billion in 2014. The company lost $100 million before tax, but that was because of a $121 million write-off. Excluding the non-cash expense, the company did eke out a small profit. Free cash flow tells a similar story.

The good news for folks holding on to Russel for its 8% yield is that the company has lots of cash in the bank. It had $143 million in cash at the end of 2015, which is good enough to pay the dividend for approximately a year and a half at the current level.

The bad news is that management has openly discussed cutting the dividend, telling the market in a recent investor presentation that returning cash to investors at the bottom of the cycle might not be the best use of the company's resources.

If I was looking for a sustainable high-yielding stock, I'd look elsewhere.

Cominar REIT

Like the rest of the sector, shares of **Cominar Real Estate Investment Trust** (TSX:CUF.UN) have done quite well thus far in 2016. Shares have rallied 17% since January 1, which doesn't even include dividends.

Many investors are still bearish on Cominar because of its exposure to Quebec. Approximately 75% of the 45.3 million square feet the company owns is located in la belle province, which makes it Quebec's largest landlord.

Cominar is quite diverse among different asset classes with 40% of its portfolio in industrial and mixed-use properties, 29% in retail space, and the remainder in office assets.

The market is concerned Cominar might not be able to earn enough to support its $0.1225 monthly dividend, which works out to $1.47 per share annually. In 2015 the company earned $1.55 per share in adjusted funds from operations. That's a payout ratio of 94%, which is high.

One factor affecting the company's cash flow in 2015 was the unexpected closing of seven **Target Canada** stores. Two-thirds of that space has now been re-leased at higher levels than what Target was paying, which is good news for 2016.

I think there's a good chance Cominar can maintain its yield, although it would be prudent if investors kept an eye on it.

Corus

At this point, **Corus Entertainment Inc.** (TSX:CJR.B) looks to have one of the most sustainable high yields out there. In the company's fiscal 2015, it generated approximately $180 million in free cash flow while paying out just $76 million in dividends. That's a very low payout ratio for a stock currently yielding 9.8%.

Corus is currently slated to acquire $2.65 billion worth of media assets from **Shaw Communications**. The debt added onto the company's balance sheet from the acquisition should push the payout ratio up to the 50-60% range, which still offers a margin of safety for folks attracted to the yield.

The issue is whether we'll see a recovery in television ad spending or watch the medium slowly die. If we do see an uptick in interest in the sector when the Canadian economy gets a little better, it'll go a long way toward giving investors confidence in the dividend being around for years to come.

At this point, I'd consider Corus's dividend to be safe.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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