



## Income Investors Beware: These 3 Great Dividends Might Be in Danger

### Description

I don't think I've ever met an investor who dislikes getting dividends.

Sure, there are plenty of academic arguments to be made against dividends, some of which actually make sense. Dividends aren't terribly tax efficient, since an investor has to pay tax on them. If a company uses its excess earnings to buy back shares or grow the business, investors can then let that investment grow longer without paying taxes on it. This theory is why **Berkshire Hathaway** doesn't pay dividends.

Reality is much different than academia, however. Many investors insist on getting dividends, knowing that a dividend keeps a company's management team honest. They also view dividends as their rightful share of the profits as an owner of the company. And many folks use dividends to either pay for necessities or to reinvest into other opportunities.

Investors can count on most dividends out there in today's market. Most companies are pretty consistently profitable, and the last thing a management team wants is to be in charge of a company that cuts its payout.

But at the same time, there are a few great dividends that are at risk. Here are three I'd stay away from.

### Cominar

**Cominar Real Estate Investment Trust** (TSX:CUF.UN) is Quebec's largest landlord. It owns more than 560 office, retail, and industrial buildings, totaling more than 45.4 million square feet of gross leasable area. The company has made efforts to expand operations away from its home province, but some 70% of operating income still comes from La Belle Province.

There are a couple of reasons why I think Cominar's generous 8.5% yield might be in danger. The biggest one is the payout ratio. The company paid out more than 95% of its adjusted funds from operations (AFFO) in 2015, which doesn't leave it much wiggle room. Other REITs try to maintain a payout ratio of between 80% and 90% of AFFO.

Secondly, the company is dealing with some vacancy issues, an issue I confirmed with my own eyes during a recent trip to Montreal. Occupancy dipped from 94.4% at the end of 2014 down to 91.9% a year later, a drop which can be partially explained by **Target's** abrupt departure from Canada.

Additionally, the REIT has a debt-to-assets ratio of 53.6%, which is a little high. Most companies in the sector try to keep debt at under 50% of assets.

Combine all these issues together, and it could spell bad news for Cominar's big yield.

## Veresen

**Veresen Inc.** (TSX:VSN) is a small pipeline operator, transporting liquid natural gas through two main pipelines. One is located in Alberta, while the other is in the western United States. Veresen also owns a smattering of power plants and has approximately \$1 billion in development projects on the go, which are mostly natural gas processing plants.

Veresen pays a current dividend of \$1.00 annually per share, good enough for an 11.8% yield. But according to guidance issued by the company in March, projected distributable cash flow will only come in at a range of between \$0.94 and \$1.08 per share. Combine that high payout ratio with the company's capital program, and it's easy to see how the dividend might be in danger.

## Russel Metals

Although shares of **Russel Metals Inc.** ([TSX:RUS](#)) have rallied more than 45% off January lows, the company's 7% dividend yield is still in jeopardy.

A big chunk of the company's revenue comes from the energy space, a sector which doesn't look likely to recover anytime soon. Additionally, prices of most of its products are down significantly—thanks to the global metal supply glut—which is affecting margins in an adverse way.

Analysts only project the company to earn \$1.08 per share in 2016, a number that isn't high enough to cover the \$1.52 per share dividend. Russel does have \$143 million in cash on hand, but that's more than offset with nearly \$400 million in debt. It would be prudent at this point in the economic cycle for management to slash the dividend and use the cash on hand for general corporate purposes.

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1. Editor's Choice

## TICKERS GLOBAL

1. TSX:RUS (Russel Metals)

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