



How Safe Are the 3 Top Dividend Yields on the S&P/TSX 60?

Description

The sharp collapse in commodities triggered a massive shake up of the top dividend yields on the **S&P/TSX 60 Index**. A range of investor favourites were forced to slash their dividends as they sought to shore up balance sheets in a harsh operating environment. All of the monster double-digit dividend yields seen over a year ago have been replaced by far more conservative yields.

Nonetheless, not all dividends are created equal and, as investors have witnessed, there is no guarantee that they will remain sustainable. With that in mind, let's take a close look at the three highest yields to determine if they are worthwhile investments.

Now what?

The highest yield of almost 5.9% is paid by **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT).

On first glance, a payout ratio of 68% appears sustainable, but on a closer inspection, Potash Corp. is facing a range of headwinds that are threats to the sustainability of that juicy yield.

You see, over the last year Potash Corp. has paid out 120% of its free cash flow in dividends, and with analysts expecting 2016 revenue to deteriorate by 21% compared with the previous year and earnings to fall by 44%, the dividend doesn't appear to be sustainable.

The company's declining financial performance can be attributed to a sharp decrease in demand for potash, phosphate, and other fertilizers because of slowing demand from China, the world's single largest consumer.

All of these factors don't make Potash Corp. the bargain it initially appears to be.

The second-highest yield of 5.8% belongs to **Inter Pipeline Ltd.** (TSX:IPL), and with a payout ratio of 122%, it looks unsustainable.

Nevertheless, Inter Pipeline has a highly diversified business that forms a crucial link between the

energy patch and key energy markets; it's responsible for transporting 35% of Canada's oil sands production. Given the reluctance of oil sands operators to shutter production because of the costs involved and growing output, there is no threat to this segment of Inter Pipeline's business, even after allowing for sharply weaker crude.

It also continues to experience strong growth, reporting record funds from operations for 2015, which was a 37% increase over 2014, and such strong results should continue as Inter Pipeline remains focused on expanding its operations. To that end it has earmarked \$260 million for investments across its business with a focus on its conventional oil and oil sands business.

Final place goes to the 5.1% yield paid by Canada's fourth-largest telco, **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)).

Over recent quarters, Shaw has struggled to unlock value for investors. Its earnings have declined as it executes a range of transformative transactions that are aimed at better positioning the company for future growth. The most recent was the sale of Shaw Media and the acquisition of **WIND Mobile** in March of this year.

Its bottom line is also suffering because of the economic slump in its core area of operations, western Canada, that is being caused by the protracted downturn in crude.

However, with a payout ratio of 81% and the company's ability to generate solid free cash flow, the dividend remains sustainable. I also expect that upon completion, the restructuring will unlock considerable value for investors by making Shaw's product offerings far more relevant in an increasingly dynamic communications market.

So what?

With dividend yields in excess of 5%, each of the top three dividend yields on the S&P/TSX 60 are attractive investments for income-hungry investors. However, not all three are equally sustainable. Potash Corp.'s juicy yield of almost 5.9% is the most vulnerable as the company faces a considerable range of headwinds that continue to impact its revenues, cash flow, and bottom line. These headwinds make it an unattractive investment that is at risk of a dividend cut.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. TSX:SJR.B (Shaw Communications)

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