

Can Investors Count on These Double-Digit Dividend Yields?

Description

The logic is simple: if dividends are great, then bigger dividends must be extra great.

Unfortunately, reality isn't quite that simple. All dividends aren't created equal. Some are easily covered by cash flow, a mere distraction as management focuses on the bigger issue, which is reinvesting the company's robust earnings.

Other companies are more mature, paying out most or all of their earnings as dividends. Naturally, these dividends are riskier than others. When 80% or 90% of earnings go towards a dividend, it's easy to envision a scenario where just a small stumble in earnings power translates into a dividend cut.

In short, all things being equal, higher dividend yields are more dangerous than lower yields.

But that doesn't mean all big yields will automatically be cut. Sure, some are in danger. In fact, the market tends to be pretty good at figuring out which high-yield stocks are facing the highest risks. These stocks end up with the highest dividend yields.

But other times, the market can get things wrong. A company with a very fixable problem will get wrongly beaten up, for example. Investors who take advantage of these buying opportunities can reap some handsome profits.

Which category do the following high-yield stocks belong in? Let's take a closer look.

Bombardier

Although **Bombardier, Inc.** ([TSX:BBD.B](#)) cut the dividend on its common shares to zero a little over a year ago, frisky income investors still have options. The company's preferred shares offer some terrific yields.

Specifically, let's look at the company's Series 4 preferred shares, which offer a 10% yield as I type this. These shares offer investors a fixed payment of \$0.39 per share each quarter. They're also perpetual preferreds, which is a fancy name for saying the dividend payment stays the same over time.

The good news about these preferred shares is there's only 9.4 million of them outstanding, which represents a payout of just \$14 million per year. That's not much for a company with a \$4.5 billion market cap. Additionally, Bombardier's management knows that stopping preferred share dividends will not bode well for the common stock, since investors will view it as a sign of weakness.

Ultimately, buying these preferred shares is a bet on Bombardier being able to avoid bankruptcy. If you believe that will happen—like I do—then it's likely Bombardier's preferred shares will maintain their generous payout and offer some nice capital gains over time.

Directcash

Directcash Payments Inc. (TSX:DCI) is one of the world's largest owners of private label ATMs, boasting a network of more than 20,000 machines in Canada, Australia, New Zealand, and the U.K.

Some investors think the ATM will soon go the way of the dodo, but I'm not so sure. Transactions per machine continue to be strong. Cash will always have a place in our society. And much of the shift towards paying with our mobile phones will come at the expense of credit cards, not cash.

Directcash offers a payout ratio of less than 60% of free cash flow, which is fantastic for a stock with a 10.9% yield. The company even has some growth potential as well, as it expands into the payment-processing business. I own this stock personally, and I'm not concerned about the dividend.

Torstar

Torstar Corporation ([TSX:TS.B](#)) is the owner of the *Toronto Star*, Canada's largest daily newspaper. It also owns a plethora of online assets through its 56% stake in VeritcalScope.

Torstar has already cut its dividend once in the past year, announcing in November it was slashing its \$0.13125 per share quarterly dividend in half to \$0.065. That's good enough for a 14.4% dividend yield currently.

In the company's most recent quarter, it announced a loss of \$0.66 per share. Yes, much of that was due to various non-cash write-offs, but it's still troubling. Free cash flow, a key dividend health indicator, was also negative.

Besides, Torstar needs all the capital it can muster to help it transition in a world where newspapers are increasingly becoming irrelevant. It doesn't make sense for it to pay more than \$20 million annually to investors in dividends. Look for the company to eliminate the dividend all together soon.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:TS.B (Torstar)

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