Are These 3 Huge Dividends Safe?

Description

We've all heard of the perils of chasing yield.

Overall, the market is pretty smart. Thus, when investors send a stock reeling to the point where it yields 8%, 9%, or even more, there are usually some very legitimate concerns with the underlying company.

A dividend investor is then forced to play detective and try to figure out whether a payout is sustainable or if the market is unfairly punishing a company. And then investors have to figure out if management has the will to continue the payout. It's not always about whether or not a company can afford a dividend, especially if competitors don't have similarly high yields.

This seems like a daunting task, but it can be worth it when investors find a cheap stock with a truly sustainable dividend. Not only do they lock in a very attractive yield, but they also get nice returns on their capital as the stock price returns back to normal levels. Put the two together and you get the kinds of investments that can really supercharge your portfolio.

Here are three high dividend stocks. Can they be counted on to maintain their generous payouts?

Corus

Corus Entertainment Inc. (TSX:CJR.B) radically transformed itself earlier this year when it acquired the media portfolio of its former parent, **Shaw Communications**.

Controversy surrounded the transaction. Some pundits thought Corus paid too much for the assets, forced into a crummy deal because the Shaw family controls the company through multiple voting shares.

I really like the deal from Corus's perspective. The company has become a true powerhouse, owning 45 Canadian specialty channels, 15 conventional channels, 39 radio stations, and a handful of original content production companies. Overall, these businesses are expected to do $1.9 billion in revenue annually with $430 million in free cash flow.

Even after accounting for the debt and equity issued to pay for the transaction, Corus has the cash flow needed to pay its 8.5% dividend. Plus, the company expects up to $50 million in annual synergies–savings that will further help support the dividend.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is the largest landowner in Quebec and also has operations in Atlantic Canada, Toronto, and Alberta. Overall, the company owns nearly 45 million square feet of office, retail, and industrial property, stretched out over 542 different buildings.

Not only does Cominar pay a generous 8.5% yield, but shares of the real estate giant trade comfortably under book value as well. The company has a current market cap of $2.86 billion while it has a book value of $3.62 billion. It's like buying assets from the 20%-off bin at the supermarket.

There's a reason why shares are so cheap, and that's the elevated payout ratio. In the company's most recent quarter, adjusted funds from operations, a key metric of REIT profitability, came in at $0.35 per share. The company's dividend during that same period was $0.3675. That's a payout ratio of 105%.

Other metrics, like Cominar's occupancy ratio and retention rate, also slumped during the quarter. While I'm not sure this is enough to put the dividend in imminent danger, it is enough to make me nervous.

Rogers Sugar

Rogers Sugar Inc. (TSX:RSI) enjoys a dominant position in a sector protected by government tariffs that keep foreign sugar companies out of Canada.

While the size of the sugar market is slowly shrinking–thanks to a combination of better diets and the growth of other sweeteners like high fructose corn syrup–Rogers has been aided by low natural gas prices and the weak dollar helping its export business.

Rogers has been a dividend machine. The current payout of $0.09 per quarter has been augmented with special dividends, most recently in 2013. After a nice run-up in the share price, the stock currently yields 6.2%.

This payout looks to be pretty safe. Over the last year, the company earned free cash flow of $50 million while paying $35.3 million in dividends. That's a payout ratio of just over 70%, which is plenty sustainable for a company like Rogers, which has little expansion potential.

CATEGORY

1. Dividend Stocks
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