



Are These Great Dividends Too Good to Be True?

Description

There's a simple rule of thumb in the world of dividend investing: the bigger the yield, the bigger the risk.

This relationship exists because, for the most part, the stock market is efficient—at least when it comes to analyzing dividend payers. Shares sell off on concerns that profitability won't be sufficient to pay the dividend. This in turn makes the dividend yield steadily increase.

When a dividend yield gets to 8% ... 10% ... or even higher, management will often just bite the bullet and cut the payout anyway, comfortable in knowing the market has already priced in a cut.

This can create an opportunity for dividend investors. By focusing on high-yielding stocks that can easily afford their payouts, they can build a portfolio of cheap stocks that throws off massive amounts of passive income. That's a good thing, especially for retirees without a lot of excess savings.

Let's take a closer look at three huge dividends to see if they can be maintained.

Torstar

Torstar Corporation ([TSX:TS.B](#)) is best known for owning Canada's largest daily newspaper, the *Toronto Star*. It has been diversifying into the digital-media business, owning sites like Workopolis, WagJag, Save.ca, and Toronto.com. It also owns a majority stake in VerticalScope, a network of websites boasting more than 500 million page views a month.

Torstar has already cut its dividend recently, slashing the quarterly payout 50% from \$0.13 per share to \$0.065. Even after that cut, shares of the struggling media company yield 16.1% after falling more than 70% in the last year.

In the last year, Torstar has generated \$19 million in operating cash flow while spending \$29 million on capital expenditures for total free cash flow of negative \$10 million. Even with \$32 million of cash on its balance sheet and no debt, it's still unlikely management will continue to pay a yield it clearly can't cover with cash flow.

Aimia

Aimia Inc. ([TSX:AIM](#)) manages loyalty programs for retailers and other businesses. Its most notable customer is **Air Canada**, running the Aeroplan rewards program for the nation's largest airline.

Shares are struggling because Canada's consumer is weak. The number of miles issued has decreased slightly amid weaker consumer spending and competition in the credit card space. New travel cards with rewards not tied to one airline are starting to become more popular.

Still, management is adamant the company can generate between \$190 million and \$220 million in free cash flow in 2016, easily covering a dividend that's expected to be around \$130 million. A payout ratio of 65% is quite low for a company yielding 10.04%.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is Quebec's largest landlord. It owns close to 540 different retail, office, and industrial buildings, spanning more than 44 million square feet in gross leasable area.

Cominar is struggling with a few different issues. **Target's** withdrawal from Canada combined with Quebec's pedestrian economy is bringing down occupancy rates. Debt taken on from a recent acquisition has elevated the company's debt-to-assets ratio to the wrong side of the 50% level that investors like to see.

And perhaps most importantly, there's legitimate reason to doubt the future of the company's 8.7% dividend yield. In its most recent quarter, Cominar paid out 105% of its adjusted funds from operations. If subsequent quarters aren't better, management may be forced to cut its attractive payout.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:AIM (Aimia Inc.)
2. TSX:TS.B (Torstar)

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