Dividend Investors: Can You Count On These Massive Yields?

Description

If dividends are good, then bigger dividends must be better. At least, that's how the logic should go.

But reality is a much different beast. The reason why many high-yield investments exist is because the market is skeptical of their ability to continue paying out dividends at the current rate. In other words, yields and perceived risk are usually highly correlated.

Investors looking for sustainable high yields must then dig deeper, finding companies that the market has gotten wrong. This is certainly achievable, but it's often easier said than done.

We can help. Let's take a closer look at these four stocks to see if they can sustain their generous payouts.

IGM Financial

Shares of **IGM Financial Inc.** (TSX:IGM), which is one of Canada's top mutual fund companies and the owner of Investors Group and its army of 5,000 agents, have slid to the point where the company is offering 6.1% yield.

From an earnings perspective, the company can certainly maintain the payout, at least for the time being. Earnings over the last year came in at $2.92 per share, while dividends were $2.25. That's a payout ratio of 77%.

There are a couple of reasons why that might not be enough to save the dividend, however. Firstly, it seems obvious the company will have to pivot from its current business plan of selling high-priced mutual funds to retail investors. This will cost money. And secondly, IGM's yield is much higher than many of its peers. It could slash the payout for that reason alone, like **AGF Management** did.

Corus

Corus Entertainment Inc. (TSX:CJR.B) recently more than doubled its business by acquiring the media division of **Shaw Communications**. What affect will that have on the company's ability to pay its 8.7% dividend?

This is where it gets a little tricky. According to projections at the time of the big deal, the new Corus would generate approximately $2.25 per share in free cash flow–easily enough to cover the $1.14 per share dividend.

At this point, we just don't know if Corus can deliver the results it promises. The good news is the payout ratio, based on projections, is about 50%, leaving the company plenty of wiggle room.

Veresen

Veresen Inc. (TSX:VSN) is the owner of two natural gas pipelines as well as 13 different power plants across Canada. It pays a monthly dividend of $0.0833–good enough for a 8.1% yield.

The company recent reaffirmed its 2016 guidance, calling for distributable cash to be between $0.94 and $1.08 per share. With a dividend of $1 per share expected, that does put the company's dividend in danger of being cut.

However, management expects the company's distributable cash per share to grow in both 2017 and 2018, making today's payout ratio seem a little less dangerous.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is Quebec's largest landlord, owning more than 500 different retail, office, and industrial properties. It has a current yield of 8.7%.

Cominar recently reported its second-quarter results. Occupancy crept up to 92.6%, and the company reported adjusted funds from operations of $0.37 per share. That was down 5% compared with the same period last year.

Through the first six months of 2016 Cominar has reported adjusted funds from operations of $0.72 per share while paying $0.735 per share in dividends. That's a payout ratio of 102%, which should concern investors a little bit.

Additionally, Cominar has a debt-to-assets ratio of 54.4%, higher than the 50% limit investors usually like to see. If I ran Cominar, I'd certainly look at cutting the distribution and using the savings to pay down debt.

Should you invest?

There will always be question marks surrounding high yields. It's the nature of the game. Personally, I hold Corus and am pretty confident it'll maintain its dividend. As for the others, I'm a little less confident, but there's still a good chance they'll find a way to keep paying those generous dividends.

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