Are These 3 +8% Yields Safe?

Description

Many investors like getting paid dividends to hold a stock. It's hard to say no to passive income.

If dividends are a good thing, then higher dividends must be a better thing. At least, that's how the logic goes.

But it's not quite that simple. Bigger dividends are usually at a higher risk of getting cut than smaller ones. A large dividend is usually much of a company's earnings, which means even a small misstep could result in a dividend cut.

But at the same time, there's money to be made in the world of high yield. Many of Canada's highest-yielding stocks are beaten down for legitimate reasons. But that doesn't mean they'll slash their dividends. Investors who have the courage to get in while things look especially bleak can be rewarded with both nice dividends and capital gains.

Here are three different dividend stocks that yield at least 8%. Let's take a closer look to see how safe each payout is.

Dream Office

Shares of **Dream Office Real Estate Investment Trst** (TSX:D.UN) are down some 50% over the last five years as the company's exposure to office towers in Alberta hasn't been a bet that worked out. It recently wrote off 45% of the value of its Alberta portfolio–a move that cost $750 million.

The company also cut its dividend, decreasing the payout from $0.186 per share monthly to $0.125. The good news is this new payout is very sustainable, with a payout ratio of just 56% of funds from operations for the first six months of 2016. It's not often investors will find a stock yielding 9.2% with that small of payout ratio.

Before Dream wrote down the value of its Alberta holdings, net asset value was 100% higher than today's stock price. If you're a believer that Alberta will come back, now is the time to get long.

Canoe EIT Income Fund

Canoe EIT Income Fund (TSX:EIT.UN) is a closed-end fund that uses leverage and various option strategies to goose the yield from a basket of dividend-paying stocks. The current monthly payout is a dime per share, which is good enough for a 10.8% yield.

Ultimately, the payout from this fund is dependent on the underlying yields of the securities it chooses. But the payout has been maintained since 2009, and thus far in 2016 cash flow has easily been enough to cover the payout.

The fund persistently trades at a discount to net asset value, usually about 20% or so. The fund manager has attempted to close the gap by offering to buy back a small amount of units at 95% of net asset value each year.

Student Transportation

For much of its history as a publicly traded company, **Student Transportation Inc.** (TSX:STB)(NASDAQ:STB) hasn't generated enough free cash flow to pay its generous 8% dividend. And yet the company keeps chugging along and investors keep getting paid.

Thus far in 2016, after adjusting for changes in working capital, the company has generated approximately $39 million in cash from operations, while paying out $57 million in capital expenditures and $28 million in dividends. The shortfall was offset by $65 million in new debt issued.

The company's debt-to-assets ratio keeps climbing as well, indicating it continues to pay out more than it takes in. While this trend could always change, at this point I'm not terribly optimistic.

That said, this doesn't mean the US$0.036 monthly dividend is about to get cut. Management has been in this position for years now, and the dividend keeps getting paid. In fact, investors got a slight raise back in 2015 when the company started paying shareholders in U.S. dollars.

Conclusion

Although Dream Office REIT just cut its dividend, I believe it has the safest payout of the three. The Canoe EIT Income Fund also has a payout that looks pretty secure. And although I'm most skeptical about Student Transportation, I will admit it is a company I've doubted for a while that continues to deliver.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:D.UN (Dream Office Real Estate Investment Trust)

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