Investors: Can You Count On These 3 Massive Yields?

Description

Although investors have been warned repeatedly, some just don't get the message. They still chase yield.

The naysayers think such an investment will end very badly. There's a reason why stocks have yields of 5%, 7%, or even 10% in a low-interest rate world. The market just doesn't trust the company's ability to earn enough to make the distribution.

I'm a little less skeptical. I believe some high-yield stocks are disasters waiting to happen. But not every company is that dire. There are dozens of stocks that just don't get the respect they deserve. For whatever reason, the market has discounted their future prospects even though the company might have years of consistent dividend payments under its belt.

It's up to each individual investor to separate the good from the bad. Let's take a closer look at a few of Canada's top-yielding stocks and see if they can maintain those fabulous payouts.

Artis

Artis Real Estate Investment Trust (TSX:AX.UN) is one of Canada's largest landowners. It has amassed a diversified portfolio of 26.5 million square feet of gross leasable area spread between Canada's five westernmost provinces and three states.

Artis shares have struggled somewhat lately for a couple of reasons. It has too much exposure to Alberta, and REITs are vulnerable if interest rates go up. This weakness has pushed shares down and their yield up. The company's dividend stands at 8.7%.

In a world where 2% GIC yields are considered generous, many question the sustainability of an 8.7% dividend yield. But not only has Artis never missed a dividend payment since its 2007 IPO, it has steadily decreased its payout ratio over time.

Management expects the company to earn $1.51 per share in funds from operations in 2016–a number supported by earnings so far. The dividend will be $1.08 per share. That gives Artis a payout ratio of 71.5%.

Compare that to **RioCan**, which is often considered Canada's finest REIT. RioCan has a payout ratio of more than 80%, yet its yield is only 5.4%. Artis deserves more love.

Directcash

Directcash Payments Inc. (TSX:DCI) dominates a sector many people think is about to get squashed by technology.

The company owns private label ATMs in Canada, Australia, and the U.K., growing its portfolio to more than 20,000 machines in the three markets. As services like Apple Pay grow in popularity, many are convinced ATMs will go the way of the dodo.

But that's just not happening. In its most recent quarter, Directcash reported the number of ATM transactions was up to 64.5 million–a 2% increase compared with 2015. Profitability is down slightly because of increased maintenance spending, but the company still can easily afford its massive 11.1% dividend.

Over the last 12 months, Directcash has generated approximately $2.20 per share in free cash flow while paying $1.44 in dividends. That's a payout ratio of just 65%, which should come down in 2017.

IGM Financial

Many people think the future doesn't look bright for **IGM Financial Inc.** (TSX:IGM) and its army of 5,000 Investors Group salespeople.

Investors Group is famous for selling high-fee mutual funds to retail investors. As ETFs continue to gain popularity, it doesn't look good for IGM's assets under management. Less capital invested is not good for the bottom line of a company that gets paid based on a percentage.

But at the same time, the company is still solidly profitable. It earned $2.92 per share over the last year, and analysts project 2016's earnings will come in a little better. It pays a quarterly dividend of 56.25 cents per share, giving it a payout ratio of 77%. That's not terrible for a stock yielding 6.3%.

If I were in charge of the company, I'd cut the dividend and use the proceeds to invest in a way to sell lower-cost products. Luckily for dividend investors, I'm not. IGM's dividend looks to be safe, at least for the time being. Investors should maybe keep a close eye on it, however.

Even though Artis, Directcash, and IGM Financial have yields of 8.7%, 11.1%, and 6.3%, respectively, I think investors can have their cake and eat it too. Although no dividend is 100% secure, I don't think investors have much to worry about with these three stocks.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AX.UN (Artis Real Estate Investment Trust)
2. TSX:IGM (IGM Financial Inc.)

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