Are These 3 Massive Dividends Safe?

Description

Although we've all heard the warning about chasing yield a million times, some investors don't care. They want to get paid generous dividends.

There's no doubt that an 8% dividend is riskier than a 3% yield. But that doesn't mean the payout is about to be cut. Investors must analyze the underlying cash flow to ensure the company can afford the dividend.

One or two high-yield stocks are risky. Ten or 12 is considerably less so. That's the magic of diversification.

Let's take a closer look at a few different Canadian stocks to see if they can maintain their generous dividends.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is Quebec's largest landlord. It also owns properties in Ontario, Alberta, and Atlantic Canada. Overall, it owns 538 office, retail, and industrial properties, spanning 44.8 million square feet.

Through the first six months of 2016, Cominar posted $0.72 per share in funds from operations, down from $0.77 per share during the same period last year. A weak economy in La Belle Province has been driving down both rents and occupancy, although the latter is creeping up a bit lately.

Cominar paid out $0.735 per share in dividends over the first six months, giving it a payout ratio of 102%. There are indications the payout ratio could increase too. The company is about to lose an important tenant in Calgary. And it recently reinstated its dividend-reinvestment plan, which will slowly dilute earnings per share.

The dividend looks safe for now, but without improvement in the bottom line, the 9.8% payout will be slashed.

Alaris

Alaris Royalty Corp. (TSX:AD) has a simple business model. It provides capital to small- and medium-sized businesses in exchange for non-voting preferred shares. These preferred shares pay dividends between 12% and 15% with some sort of inflation clause built in.

There's just one problem. Sometimes these companies run into difficulties and can't pay their dividends.

That's exactly what's happening with KMH, one of its largest investments. KMH hasn't paid a nickel in distributions in 2016, and the value of the investment has been written down from $55 million originally to $28 million today, reflecting the company's expectations of repayment.

This decrease in earnings has the potential to impact the dividend. Alaris only earned $0.19 per share in its most recent quarter while paying out $0.415 per share. Analysts still expect the company to earn $1.70 per share in 2016, which is enough to cover the 7.8% dividend. Earnings are expected to rebound to $1.92 per share in 2017.

Genworth

Genworth MI Canada Inc. (TSX:MIC) is Canada's largest privately owned mortgage default insurer.

Mortgage default insurance is a good business to be in when real estate is hot. There's plenty of volume with very few payouts. On the off chance somebody defaults, the property can just be sold for more than what's left owing on it.

There are multiple indications Canada's hot real estate market could be cooling. The feds recently made it much harder to qualify for a mortgage–a move Genworth admitted will slow new loans significantly. And B.C. passed a foreign buyers' tax, slapping a 15% surcharge on a major source of purchases.

At this point, Genworth can easily afford its 5.8% dividend. It earned $3.93 per share in the last year while paying out just $1.68 per share. The issue is whether or not earnings will remain strong enough to afford it at this point next year. I'd be cautious over the long term, but things will likely be fine for at least a few quarters.

The bottom line

I firmly believe Alaris Royalty is going through a tough time, but it will emerge with its dividend intact. Genworth's dividend also looks quite safe in the short term, although that could change. Cominar is an easy choice for me; I would avoid that dividend. There are plenty of other better REIT choices out there at almost equivalent yields.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)

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