Income Investors Beware: These 3 Great Yields Might Not Survive 2017

Description

The worst thing any income investor can experience is a dividend cut.

Not only does such an event permanently disable their income stream, but it usually also comes with a big capital loss as well. Talk about a brutal double whammy.

Fortunately, smart investors can spot dividend cuts coming. It involves a bit of analysis, but it's really not that hard to figure out. In fact, it's quite simple: companies that pay out more than they take in are at risk of slashing their dividends.

Here are three companies that are at risk of cutting their attractive payouts in 2017.

Dream Global

Dream Global REIT (TSX:DRG.UN) owns office buildings in Germany and Austria and has a total portfolio of 181 different facilities spanning nearly 13 million square feet. The company owns total assets of $2.8 billion.

There are a number of advantages to investing in German real estate. The nation's economy is one of the best performing in all of Europe. Low interest rates make borrowing attractive, which has helped spur growth. And much of Germany's population is centred in a few major cities.

There's just one problem: Dream Global pays out every nickel it makes to investors–and then some.

Through the first three quarters of 2016, the REIT earned $0.58 per share in adjusted funds from operations. It paid $0.60 per share in distributions, which is good enough for a yield of 8.5%. And remember, the company just listed on the Frankfurt Stock Exchange. The amount of cash going out the door will increase.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is Quebec's largest landlord. It also owns property in Atlantic Canada, Ontario, and Alberta. In total, the company owns 539 different properties and nearly 45 million square feet of space.

Like Dream, Cominar has one simple problem: it consistently doesn't earn as much as it pays out in dividends. Through the first three quarters of 2016, it reported operating revenues that fell 2.3% versus the same period last year with adjusted funds from operations coming in at $1.06 per share. It paid out $1.1025 per share during the same period, putting the payout ratio at 104%.

The company also recently issued more than 12 million shares in a move to cut debt. That's right. Management essentially swapped debt that cost 4% annually with equity that yields 10.2%.

Cominar trades at just 9.9 times trailing adjusted funds from operations, which is pretty cheap. It appears the market also thinks a dividend cut is coming.

IGM Financial

IGM Financial Inc. (TSX:IGM), the parent company of Investors Group and Mackenzie Financial, is a little different than the other two stocks I've featured. It actually makes enough to cover its generous 5.8% dividend.

Over its last four quarters, the company has paid $2.24 per share to investors while earning $2.93 per share. That's a comfortable 76% payout ratio. Management has also bought back 5.5 million shares in the last year, which should help the dividend become more affordable in 2017.

But IGM's earnings are poised to fall off a cliff.

Investors are moving away from expensive mutual funds en masse, as pundits everywhere warn them about the perils of fees on total returns. These folks are investing in ETFs, either on their own or through a new, low-cost alternative, the robo-advisor.

This trend shows no evidence of slowing down in 2017. In fact, it could very well accelerate. That will not be good for IGM's assets under management and, in turn, earnings. It's obvious what direction the trend is going.

The bottom line

There's always going to be risk in buying high-yield stocks, and most of the time, such investments tend to work out. Heck, even these companies could get through today's tough times with dividends intact.

But for me, the risk is just too high. I would avoid each of these companies until further notice.

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