Dividend Investors: Are These 3 Great Yields on Shaky Ground?

Description

The dreaded dividend cut is every income investor's worst nightmare.

There's always the risk a dividend will get cut, and the chance only increases the higher a yield gets. A 2% payout is almost always sustainable. A 6% yield comes with far more uncertainty. And many investors won't even touch a 9% yield because they're convinced the market is telling them a very sinister message.

But the world of investing isn't quite so simple. Sometimes a stock gets beaten down, even though there's no immediate risk to its cash flow. There are a number of reasons why this might happen, such as an accounting scandal, a product recall, or an influential person who becomes bearish.

Is the market wrong about these three top TSX dividend payers? Or are income investors about to get hurt? Let's take a closer look.

IGM Financial

Many investors have long assumed **IGM Financial Inc.** (TSX:IGM) is a prime candidate to slash its generous 5.5% dividend.

The logic goes something like this.

In a world where billions of dollars of assets are moving away from mutual funds to cheaper options like ETFs, IGM is suffering. In addition, new rules dictate that its Investors Group salespeople will have to disclose the cost of owning a fund in dollar terms rather than percentage terms. Bears say this will accelerate the process of assets moving away from expensive mutual funds.

Another thing that concerns me is the company's expanding debt. At the end of 2012, IGM owed $6.2 billion. These days, the total debt is $8.8 billion, plus the company just announced a $600 million debenture offering. Earnings are up during that time, but only marginally.

But it's not all bad news for IGM. It recently announced a big investment in a Chinese asset manager which is poised to significantly grow assets under management as China's population gets richer. It has been having some success cutting fees. And many investors value having a face-to-face relationship with their advisor — something a robo-advisor can't replicate.

IGM can also comfortably afford its distribution. It earned $2.93 per share in the last year while paying out $2.24 per share. That's a payout ratio of 76%.

Corus Entertainment

Corus Entertainment Inc. (TSX:CJR.B) is a tricky dividend stock.

The company spent aggressively to buy **Shaw Communications's** media assets about a year ago, creating a big debt obligation. Unfortunately, results haven't really been up to expectations. The combined Corus hasn't been delivering the kind of free cash flow investors have expected.

Recent results have been better. First-quarter profits were $0.41 per share, and management maintained that profits would continue to go up throughout the year as more synergies kicked in. They also made sure to reiterate that the company expects to at least maintain its very generous dividend. The current yield is 8.6%.

Things may get trickier next year. Shaw acquired 71 million Corus shares to help pay for the big transaction. Shaw has the option to receive cash dividends for these shares at the end of Corus's fiscal 2017. This would push Corus's dividend from manageable to risky in a hurry.

Cominar

Cominar Real Estate Investment Trust (TSX:CUF.UN) is Quebec's largest landowner. It's the owner of 539 different buildings that span nearly 45 million square feet of space in Quebec as well as Ontario, Alberta, and the Atlantic provinces.

Investors have long been speculating that Cominar will cut its 9.9% payout for one simple reason. It consistently doesn't earn enough to cover the distribution.

Through the first nine months of 2016, Cominar earned $1.06 per share in adjusted funds from operations while paying out $1.1025 per share to investors. That doesn't look good.

But things may end up better in 2017. Cominar is having some success getting its occupancy up, and many investors choose to take their dividends in the form of more shares. The cash payout ratio isn't so dire.

The bottom line

While I don't envision that IGM Financial, Corus Entertainment, or Cominar will cut their dividends in the next few months, all have relatively risky payouts. Investors should keep this in mind before putting their cash to work in any of the three companies.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CJR.B (Corus Entertainment Inc.)
2. TSX:IGM (IGM Financial Inc.)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/27
Date Created
2017/01/27
Author
nelsonpsmith