Buyers Beware: 2 Yields That Are Too Good to Be True

Description

Income-seeking investors can be easily mesmerized by a stock's high yield. However, when adding these high-yield stocks to your portfolio, an investor must ensure that the company can continue to service its debt while paying out its dividend. If it fails to do so, its stock price and dividend yield could take a severe hit.

Student Transportation Inc. (TSX:STB)(NASDAQ:STB), and **Corus Entertainment Inc.** (TSX:CJR.B) are two companies that could leave investors full of regret if they chase these unsustainable yields.

Student Transportation Inc.

Student Transportation provides bus transportation for public and private schools in North America. Typically, businesses in an industry that provide a "need" and will be around for years to come are quite attractive to Foolish investors. Unfortunately, a high-demand industry cannot overcome fundamental financial issues within a company.

Student Transportation has a weak balance sheet. The company's debt load continues to rise, while its cash flows remain relatively low. In addition, the company's assets are not liquid; therefore, the company could face issues coming up with cash to service debt and its high dividend yield.

Another warning signal for Student Transportation is that it has cut its dividend six years in a row. Therefore, investors have reason to believe this trend will continue and its current 8% yield won't be sustainable.

Corus Entertainment Inc.

The main concern with Corus is that it operates in a declining industry that's highly competitive. The company focuses on traditional TV networks and radio stations, which are being weeded out by online streaming services, podcasts, and other media outlets. It's difficult enough for these companies to produce content that attracts customers, let alone trying to achieve this through an outdated media outlet.

From a financial-statement perspective, the company has raised its dividend year over year and generates positive cash flows. However, it's not clear yet if the acquisition of Shaw Media will result in an increase in revenue and subscribers. With its debt load almost tripling in 2016, its cash flows will tighten and make it more difficult for the company to service its 8.94% dividend.

For Foolish investors with a long-term view, a company such as Corus that is in a declining industry with potential financial struggles ahead is not the type of stock you buy and hold forever.

Foolish bottom line

The dividend yield can't be an investor's sole focus when selecting stocks. As attractive as these high yields can be, it's more important to acquire companies that are in a strong financial position and will be around for years to come. At this time, there are far better opportunities in the marketplace to Foolishly invest your money.

Fool on!

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1. TSX:CJR.B (Corus Entertainment Inc.)

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