Retirees: 3 Dividend Stocks to Avoid

Description

As we move further away from a world where we can count on our employers and generous Canada Pension Plan dollars to keep us comfortable in retirement, many folks entering their golden years have put their capital to work in dividend-paying stocks.

This is a perfectly logical strategy. It isn't terribly difficult for one to build a diverse portfolio full of stocks yielding 4%, 5%, or even more. Most GICs pay less than 2%, plus they don't come with capital-appreciation potential, like equities.

There's just one problem with dividend-paying stocks: they sometimes cut their payout. But as long as retirees avoid risky high-yield stocks and have a varied selection of companies inside their portfolios, even a dividend cut or two wouldn't be the end of the world.

Still, retirees should try to avoid any cut to their income at any cost. Here are three particular stocks to stay away from.

Corus

From a value perspective, I'm a big fan of **Corus Entertainment Inc.** (TSX:CJR.B). The company generates plenty of free cash flow, and that number should go up over time as it fully integrates its big 2016 acquisition of **Shaw's** traditional media assets.

In the last year, the company has generated $216 million in free cash flow. It has a current market cap of $2.7 billion, giving it a trailing price-to-free cash flow ratio of 12.5. That's a very reasonable valuation in today's market.

But much of Corus's free cash flow is dedicated to paying its gigantic 8.5% dividend. The company would benefit by redirecting some of that capital towards paying off the large amount of debt it took on with the Shaw acquisition. Corus owes creditors more than $2 billion and could be in danger of breaching debt covenants if its earnings decline in a major way.

In addition, Shaw took some 71 million Corus shares as partial payment for its assets. These shares are enrolled in Corus's dividend-reinvestment program until the end of the company's fiscal 2017. After that, Shaw has the right to receive cash dividends or start selling shares.

Dream Global

On the surface, **Dream Global REIT** (TSX:DRG.UN) seems like a good way to get exposure to Europe — the REIT owns 173 different buildings spanning 13 million square feet in Germany and Austria — while collecting a succulent 8.8% yield.

But once we did a little deeper, the sustainability of that dividend comes into doubt. In 2016, the company generated $90.6 million in adjusted funds from operations. It declared more than $94 million worth of dividends. The only thing that gave the company a positive payout ratio was its dividend-reinvestment program. It paid out just shy of $82 million in cash dividends; investors took the rest as new shares.

The problem with a dividend-reinvestment program is it just adds to the number of shares outstanding. Without results improving, Dream's payout ratio will continue to get worse.

IGM Financial

It's obvious what direction the market is going. Investors are moving away from high-priced mutual funds — like the ones offered by **IGM Financial Inc.** (TSX:IGM) and its army of Investors Group agents — and into cheaper alternatives.

IGM isn't taking these changes lying down, of course. The company recently made a $647 million investment into China's largest wealth manager for 13.9% of the company. It has also lowered some mutual fund fees and launched a number of new exchange-traded funds. Critics argue these strategies are akin to moving around deck chairs on the Titanic.

IGM's current payout is 5.5%. While the company does earn enough to cover the yield, this is capable of changing at any time.

The bottom line

It's simple. If you're depending on dividends to eat, pay for shelter, and other necessities, you just can't afford a dividend cut. It's best to stick with the kinds of payouts you can count on.

There's nothing saying that Corus, Dream Global, and IGM Financial are guaranteed to cut their payouts. Each company could very well recover and even raise their dividends. But retirement savings shouldn't be risked like that. Stick with safer options.

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