Investor Beware: This High-Yield Canadian Stock Is Marc Cohodes's Next Big Short

Description

Exchange Income Corporation (TSX:EIF) is the latest Canadian stock that the infamous short seller Marc Cohodes is going after. Shares of Exchange Income Corporation nosedived 4.72% after Mr.Cohodes announced his short position following the company's sub-par earnings report with the hopes of amplifying investor pessimism.

What is Exchange Income Corporation?

The company is a diversified acquisition-oriented business which focuses on opportunities in the aerospace and aviation services and equipment, and manufacturing. Exchange Income Corporation has made many acquisitions over the years in niche markets, including scheduled passenger flight services, cargo handling, and medical evacuation, just to name a few.

The company has a market cap just south of $1 billion with a huge 6.75% dividend yield. The management team's goal is to boost free cash flow to support future dividend increases down the road.

A 6.75% yield is quite hefty. It has to be an artificially high yield, right?

Not quite. Exchange Income Corporation's dividend appears to be an interesting anomaly. The yield has typically been north of the 6% range over the last five years, and it has been kept intact over the last decade.

When looking at the dividend history over the last decade, the company looks promising; its dividend has grown a substantial amount, even during the Financial Crisis.

The management team looks extremely shareholder friendly when it comes to its generous dividend, which may sound promising to investors, but one thing that's concerning is that the company's earnings over the past decade have not grown at the same magnitude as its dividend, which may be concerning.

Why is Marc Cohodes shorting Exchange Income Corporation?

Mr. Cohodes believes that Exchange Income Corporation’s dividend is not sustainable since the current dividend is not covered by the company’s cash flows. He also thinks that shares are overvalued because of the weak cash flows. Mr. Cohodes also pointed out that Exchange Income Corporation has increased its debt by approximately $427 million over the last five years while issuing over $230 million in shares.

Comark Securities analyst David Tyerman believes that the points that Mr. Cohodes brings up are “unfounded.” He argues that Exchange Income Corporation’s dividend is completely safe and is actually covered by the company’s cash flow from operations.

Mr. Tyerman stated that he “…believe[s] today’s share price sell-off represents an attractive buying opportunity.”

Bottom line

Mr. Cohodes brings up some interesting points, but I don’t think the stock is that overvalued after falling over 31% from its 52-week high. The company has a strong history of dividend increases, so I’d be very careful if you’re thinking about following Mr. Cohodes by shorting Exchange Income Corporation. It has a huge dividend, and I don’t think it’ll be slashed anytime soon.

Personally, I’m avoiding Exchange Income Corporation right now because shares may plunge as Mr. Cohodes releases more dirt on the company in the coming months.

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