Marc Cohodes Strikes Again, Betting Against This Top Dividend Stock

Description

Short seller Marc Cohodes isn't impressed by higher-than-expected earnings reported by **Exchange Income Corporation** (TSX:EIF), one of the top dividend-paying Canadian stocks.

Cohodes, who got fame after betting against **Home Capital Group Inc**. this spring, doesn't believe that his latest target will be able to sustain its dividend payment, calling its latest earning report a "disaster," even after the Manitoba-based Exchange Income Corporation reported $0.77-a-share earnings for the second quarter, beating the $0.62 average forecast by analysts. Revenue of $273.1 million also exceeded forecasts by 13%.

Cohodes believes that the company's cash generation isn't enough to cover its high dividend, while its debt level is alarmingly high. His comments sent Exchange Income Corporation's shares tumbling 8% on July 20, adding to 27% decline this year.

Exchange Income Corporation operates small regional airlines and manufacturing businesses. It has built its business by making many acquisitions in North America's niche markets. Its operations include scheduled passenger flight services, cargo handling, and medical evacuation.

But the management in its earning press release gave a different picture, trying to calm investors who have seen a 21% drop in the company's share value in the past three months.

"The results of the second quarter of 2017 are a testament to the strength and resilience of the principles that have guided EIC since its inception 13 years ago," said Mike Pyle, CEO of Exchange Income Corporation, in a press statement. "Since day one, we have believed in diversification of operations and a disciplined investment approach. The record EBITDA and Net Earnings in the second quarter are the product of continuing to manage the business as we always have."

Devil is in the details

But all isn't well when you dig a little deeper into the second-quarter numbers. Though the top-line cash flow number was up 21% when compared to the same quarter a year ago, net free cash flow — a key measure to analyze whether or not a company has enough cash to pay for its dividends — was down

14% to $21.8 million, as the company spent more on maintenance activities.

But if you subtract growth capital expenditure of $33 million from Exchange Income Corporation's free cash flow, then you get a negative number, and this is what making investors nervous and letting short sellers encircle the company. This reduction in free cash flow took the divided-payout ratio to 75% in the second quarter, up from 54% in the same period of 2016.

According to a *Bloomberg* report, which cited Markit data, short interest accounts for 22% of Exchange Income Corporation's float.

Should you believe the management?

There is no doubt that speculative investors are putting more faith in Marc Cohodes's recommendation than what management has shown in second-quarter earnings. I see a pressure building on the company's free cash flow as it re-invests heavily in the U.S. aircraft business.

In this situation, maintaining a 7% dividend yield will be an uphill task for the company, but it's not impossible. After all, Exchange Income Corporation has a 13-year track record of paying and growing its dividend.

If you're a long-term income investor, I'll not recommend to taking a long position at a time when a large number of investors betting against the stock. But don't wait on the sidelines if the company starts buying back its shares, because that step will clearly go against the short sellers, showing the company's strong resolve to fight back.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EIF (Exchange Income Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/25
Date Created
2017/07/21
Author

hanwar