Retirees: Are These 2 High Dividend Yields Under Threat?

Description

An unexpected dividend cut is a worst nightmare for a retiree who's trusted a company for their retirement income.

But in the fast-changing business environment, it's tough to avoid these disappointments completely if you're in it for a long haul.

It was not a long ago when investors saw a lot of dividend cuts in the commodity space. Oil producers, miners, and agriculture companies were forced to cut dividends as they struggled to preserve cash as commodity prices collapsed.

You can avoid cyclical commodity businesses, but the problem with this strategy is that these sectors make up a large part of the Canadian stock market.

However, in your dividend-growth portfolio, you can minimize the risk by diversifying your investments; include great stocks that consistently hike their payouts, and make risky stocks only a small part of your portfolio.

Another part of your risk-mitigation strategy should be to look for the warning signs that tell us about the company's ability to continue paying dividends.

For example, you should avoid companies that are distributing more in dividends than what they're earning or those that have unsustainable debt loads.

Here are two Canadian stocks which seem to be in danger of cutting their hefty dividend yields.

Corus Entertainment

Corus Entertainment Inc. (TSX:CJR.B) pays $0.095 a share monthly dividend, yielding 7.9% at the time of writing this report.

Corus, which was spun off from **Shaw Communications Inc.** more than 15 years ago, operates a network of Canadian radio stations and children's TV channels, including YTV, Nickelodeon, and Cartoon Network.

Let's see if there are some red flags in the company's financial numbers that warn us about the sustainability of this very lucrative dividend yield.

On the trailing 12-month basis, Corus's payout ratio is 140%, meaning that the company pays more in dividends than what it earns. Its earnings are also down 17% on trailing 12-month basis when compared to the period a year ago, suggesting that Corus has to work really hard to generate cash to justify this high dividend payout.

There is no guarantee that Corus is going to cut its dividend, especially when Shaw Communications has its back, but investors have to be careful when investing in a company which is having a tough time to produce growth in its profitability and cash flows.

Cominar

Cominar REIT (TSX:CUF.UN), which has a 11.5% dividend yield, shows very clear signs of a financial distress.

This month, the company cut its monthly dividend by 22% to $0.095 per month after its credit rating was downgraded by **DBRS Limited** from “investment” to “speculative” grade.

Cominar is the third-largest diversified REIT in Canada and currently remains the largest commercial property owner in Quebec. Its dividend yield looks quite attractive, but there are many warning signs that should stop investors from investing in this company.

First, its payout ratio, on a 12-month trailing basis, remains unsustainable at 116%. Second, its debt load remains quite high with the total debt-to-equity ratio of 115%. Though the management is trying hard to cut its payout ratio to more sustainable 90%, investors are better off to stay on the sidelines until they see real improvements.

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hanwar