3 Dividend Stocks With High Payouts That You Should Avoid!

Description

High-yielding stocks are hard to come by, especially ones that are sustainable. It's important, with stocks that have high payouts, to consider the company's cash flow and if it is strong enough to afford the dividend payments, because if there isn't enough cash coming in, that might mean that a dividend cut is around the corner.

I'm going to have a look at three dividend stocks that pay more than 7% annually and assess whether or not these would be good options to add to your portfolio.

Timbercreek Financial Corp. (TSX:TF) currently pays a dividend of over 7.2% with monthly installments that can provide you with a regular stream of income. The stock was listed on the TSX just last year, and since that time has seen its share price rise over 13%.

Monthly payments of $0.057 mean that the company's annual payouts of $0.684 made up 86% of Timbercreek's earnings per share (EPS) last year. This is a bit high, but a look at cash flow might give us a better idea of whether the company can maintain its dividends or not, since, unlike earnings, it won't include non-cash items.

Timbercreek has seen free cash flow increase for three straight years, and dividend payments have averaged over 95% of the company's available cash. This is a bit concerning, because if Timbercreek sees a decline in its income, it may not be able to maintain its current dividend. In the trailing 12 months, Timbercreek's free cash has risen, and this has resulted in its payout ratio dropping to under 90%. However, I would avoid the non-bank lender, especially under the current economic conditions where interest rates might continue to rise and put borrowers at a higher risk of default.

American Hotel Income Properties REIT LP (TSX:HOT.UN) is an even higher-yielding stock with monthly dividends of US$0.054 providing a very high 8.5% payout to investors. After a poor quarter, where the company posted a net loss of $5 million, American Hotel's EPS dropped to $0.12 and sent its payout ratio to over 500%. A look at the company's cash flow does not make things any better, as American Hotel has had negative free cash flow in each of the last three years.

Although the company has been growing sales with its latest quarter showing a 56% increase in revenue, profit margins averaging just 4% the past three years means that American Hotel will have to see a lot more growth to make its dividend sustainable.

Ensign Energy Services Inc, (TSX:ESI) has seen its share price drop 28% in 2017, which has pushed the stock's yield to over 7.1%. With a negative EPS the past two years and losses in the last four quarters, an EPS-based payout ratio is not necessary. Using free cash is slightly better, since the company has had $8 million in available cash the past 12 months, but that is down significantly from $122 million last year, and even less than the $244 million it posted two years ago.

Net losses, falling free cash, and operations in a struggling oil and gas industry make Ensign a stock that might be primed for a dividend cut. Dividend investors looking at oil and gas should consider **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) instead, which offers a much safer payout.

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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:ESI (Ensign Energy Services Inc.)
4. TSX:HOT.UN (American Hotel Income Properties REIT LP)
5. TSX:TF (Timbercreek Financial Corporation)

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