This High-Yielding Dividend Stock Just Announced a Special Dividend!

Description

High-yielding dividend stocks are hard to come by, especially reliable ones that aren't in danger of being cut anytime soon.

These types of stocks normally don't see much dividend growth because of the already high yields, so when a special dividend is announced, it might present an excellent opportunity to buy the stock in advance of the ex-dividend date to secure a great yield.

Not only does a special dividend offer you even more dividends, but it is a sign that the company issuing the dividend has recently done very well and could make the stock even more appealing to investors.

First National Financial Corp. (TSX:FN) reported its third-quarter results on Tuesday. It was announced that the company would issue a special dividend of $1.25 per share in December to shareholders of record on November 30. First National already pays its shareholders a great monthly dividend, which yields 6.8% per year.

However, the share price could take off on news of a special dividend, which would see that yield shrink as a result.

Strong performance prompts a special dividend

The company believes that the capital it needs for growth can be generated from its current operations and, as a result, is distributing excess capital accumulated over several years back to shareholders.

First National saw its net income increase 14% year over year with per-share earnings up to $0.96 for a $0.12 increase from a year ago. Revenue of $284 million also rose 4% as a result of gains that were recorded on financial instruments. Without these gains, the company would have seen revenues drop by 2%

Placement fees down as a result of fewer new mortgages being issued

First National saw placement fees of $31 million drop over 40% from the previous year, as more stringent mortgage rules saw declines in new single-family mortgages, which were down 12% year over year.

Although representing a smaller piece of the pie, commercial mortgages were up 47%, which helped the company offset the losses from the residential segment.

The company believes that interest rate increases cost First National $14.4 million in placement fees.

Do market conditions make the stock a bad buy?

With even more stringent stress tests for residential mortgages recently announced coupled with the potential for further interest rate hikes, it could be a recipe for a much more difficult market for lenders such as First National to succeed in.

If a 12% decline in residential mortgages had such an impact on the company's placement fees, which typically make up a third of net revenue, then we could see even more of a negative impact in the coming quarters.

Should you buy the stock today?

The dividends definitely make the stock attractive; however, investors should be careful not to be distracted. First National could be trying to divert the attention of investors away from the decline in mortgages and placement fees to the attractive yield and special dividends.

As tempting as it might be to jump on board the stock for its great payouts, the danger for investors is that the dividends might just end up being used to offset the losses that come their way as interest rates rise and residential mortgages become even more difficult to obtain.

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