# Is This 10% Dividend Yield a Trap or the Best Bargain for 2018?

## Description

Earning consistently high dividend yields is a dream for retirees and income investors.

But most of the time, attractive dividend yields come with a greater risk. If you're picking stocks just because they offer yields that beat the market, and you ignore other business fundamentals that should support those returns, then you're running the risk of losing your investment.



Take the example of Montreal-based loyalty and marketing company **Aimia Inc.** (TSX:AIM), which runs Aeroplan and other customer-reward programs for various businesses, including **Air Canada.**

After Air Canada announced in May that it was going to end its ties with the Aeroplan loyalty plan and set up its own in 2020, Aimia had to suspend its dividend plan. Its stock lost almost half of its value in a matter of days. The reason: Aeroplan accounted for 54% of Aimia's $2.34 billion in gross billings in 2016, and the company's revenue base was very narrow.

Here is another high-yield dividend stock that looks very attractive, but I think smart investors won't go even near this name. Here is why.

**Corus Entertainment**

**Corus Entertainment Inc.** (TSX:CJR.B) stock offers a highly attractive dividend yield of 9.8%. Since late October, this stock has lost half of its value due its unstable earnings outlook and questions about its future. The company pays a monthly dividend of $0.095 a share, which is trading at $11.61 at the time of writing.

So, if you're planning to invest in this company, you should ask this fundamental question: What are the threats to its business and its future cash flows?

Corus, which operates a network of Canadian radio stations and children's TV channels, including YTV, Nickelodeon, and Cartoon Network, is facing a challenging operating environment.

It will be tough for Corus to sustain this extremely high payout at a time when consumers are discontinuing cable connections, and the pattern of content consumption is changing fast.

The company is facing a direct threat from over-the-top players, such as **Netflix.** This challenge isn’t going away, but it’s growing every day.

### Unsustainable payout ratio

One of the biggest factors to look into when you’re analyzing the company’s financial data is to see if the company’s payout ratio is sustainable.

The payout ratio tells us that whether the company is generating enough income to maintain its payouts to investors. In the case of Corus, that metric is showing an extreme level of risk.

On a trailing 12-month basis, Corus’s payout ratio is 187%, meaning that the company pays more in dividends than what it earns. Its ~10% dividend yield is higher than its five-year average of 6.38% at a time when its net income fell from $71 million four quarters ago to $29 million in the most recent one.

### Investor takeaway

So, what’s the lesson here? A high dividend yield itself tells you nothing about a company. A company will only be able to sustain dividend payouts if it’s running a solid business and generating strong cash flows. Corus has to show investors that it has a plan to survive in this tough competitive environment.



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