A High-Yielding Dividend Stock: Is it Worth Taking the Risk?

Description

If you're in search of stocks that pay high dividend yields, then your options are limited. In the pursuit of lucrative yields, you either have to go in a highly risky segment of the market, or you pick stocks that are solid but going through a temporary weakness.

When you're ready to take a position, make sure you're not buying a stock that has no chance of recovery and the company isn't finding it tough to sustain its dividend payments.

There can be many reasons that force companies to cut their payouts.

The most common one is a high degree of indebtedness. In this situation, companies come under increasing pressure by the rating agencies to cut their dividends and save cash to reduce their debt.

North America's largest pipeline operator, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), is a recent example. As the company's debt ballooned after its acquisition of Spectra Energy, investors began to doubt the sustainability of its dividend payout and hit its share price hard over the past 12 months, prompting a rating cut.

In the U.S., **General Electric** (NYSE:GE) is another example. Retirees and retail investors have counted on what were once generous dividend payments from this 125-year-old iconic name which produces bulbs, appliances, and jet engines for global consumers.

But last November, new CEO, John Flannery, decided to cut its rock-solid dividend in half, as demand for its products waned. It was only the second time since the Great Depression that GE has cut its dividend. While slashing the payout, Flannery acknowledged that fixing GE will take time and require a great deal of business restructuring.

A high-yielding Canadian stock

RioCan Real Estate Investment Trust (TSX:REI.UN) is a Canadian REIT that's offering a highly attractive risk/reward equation. RioCan is Canada's largest retail REIT, managing a portfolio of 289 properties, including 17 development properties, with an aggregate net leasable area of 44 million square feet.

But the company is in the middle of restructuring to survive in the fast-changing retail environment in North America. It's exiting from smaller and less-lucrative markets as part of its plan to focus on the six target cities in Canada.

This REIT is also launching a new residential brand, RioCan Living, to take advantage of swelling demand for mixed-use properties. In five years, RioCan expects that up to 5% of its operating income will come from residential, and in about a decade its goal is 10% or higher.

But investors don't like uncertainty. And that's the reason RioCan stock has been under pressure for the past 12 months, taking its dividend yield to more than 6%.

For dividend investors, RioCan's consistent history of rewarding investors is the biggest attraction. The company has been paying dividends for the past 23 years. During that period, RioCan raised its annual distribution 17 times.

The bottom line

If your investment objective is to pick stocks that offer value and a higher dividend yield, then RioCan is an attractive option. Trading at $23.80 at the time of writing, with a yield over 6% and a P/E ratio of 11, I find RioCan cheap with upside potential of at least 30%. If you have the patience to hold this stock while the company transforms its business, I think RioCan is a bet worth taking.

CATEGORY

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2. NYSE:GE (General Electric Company)
3. TSX:ENB (Enbridge Inc.)
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