



Income Investors: Should You Pick Up Chemtrade Logistics' (TSX:CHE.UN) 8% Dividend Yield Today?

Description

Investing in stable, well covered high yield dividend paying stocks can be a rewarding strategy for a retirement portfolio, especially considering the compounding effects of such high payouts if reinvested back into the portfolio. **Chemtrade Logistics Income Fund** ([TSX:CHE.UN](#)) equity units are offering a juicy 7.95% income yield at the time of writing. Should you be thinking of picking the units for monthly income today?

Let's take a look at this awesome yield and see if it can be a good investment pick at current levels.

Chemtrade Logistics is an income trust that provides industrial chemicals and services to customers in North America and around the world. The trust has three income producing segments, namely Sulphur Products and Performance Chemicals, Water Solutions and Specialty Chemicals, and the Electrochemicals segment. It owns nearly 62 production facilities.

The units pay a flat \$0.10 monthly dividend that currently yields an attractive 7.95% per annum on a forward-looking basis. However, their market price has been on a slow sustained decline over the past six months, and the dividend has been unable to cushion investors from capital losses, as the units have generated negative 17.5% total returns so far in 2018.

Is the dividend safe?

The units' dividend payout rate currently stands at 72.6% of trailing 12 months' earnings. The ratio may appear on the high side, but management does not generally consider net earnings in setting the level of distributions, as this non-cash metric isn't reflective of the level of cash flow that the trust can generate.

The trust has a relatively high level of depreciation and amortization expenses and foreign exchange gains and losses, and it may be reasonable to evaluate dividend safety from a cash flow angle.

For the first quarter of 2018, the dividend payout was 65% of distributable cash after maintenance capital expenditures and growth capex. Over the past 12 months, the cash dividend payout ratio is

91%, which is on the high side.

That said, management has maintained the payout during bad times in 2016, when business losses were significant, and I wouldn't expect them to make a distribution cut after profitability has significantly improved in 2018.

Why is the price falling?

Chemtrade has reported sequential declines in total revenues and gross margins over the past three consecutive quarters. The trust has seen weaker performance in two of its three income-generating segments recently, namely the sulphur products and performance chemicals segment and the water solutions and specialty chemicals segments. These negative developments may be signs of some structural declines in a mature, slow growth, and low margin industry.

Further, the trust is facing some litigation risk. It is the subject of an ongoing investigation by the U.S. Department of Justice for an alleged anti-competitive conduct in the water treatment chemicals industry committed between years 1997 and 2011 and beyond. It is also a defendant in two class action lawsuits relating to the same conduct; the possible financial liabilities from these proceedings haven't been determined. That said, the issuer has the benefit of conditional amnesty in the matter, so the damage may not be that significant.

Should you buy?

Despite the recent capital losses on its equity units, the chemicals manufacturer could provide [dependable monthly income](#), and also offers some [portfolio diversification benefits](#). There could be a possible valuation rebound in sight.

Most noteworthy, the income trust may report better operating results for the second quarter of 2018, boosted by a firmer United States dollar as several of its sales transactions are conducted in the green back. Actually, analyst estimates are for revenue to significantly grow sequentially during the second half of 2018. Higher earnings may accompany improving revenue performance, and investors may see a recovery in the units' market price.

It may be wise to place this dividend payer on your watch list to keep updated on revenue performance going forward.

Chemtrade does offer an attractive dividend yield. That said, investors should be aware that the dividends are not eligible dividends for Canadian resident unitholders and therefore not eligible for the enhanced tax credit.

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