Are These 3 Massive Dividends Safe?

Description

We've all been there. At best it's an expected outcome that doesn't impact a stock all that much. At worst it's like a sucker punch, taking much of your capital along with the expected income stream.

That's right, I'm talking about the dreaded dividend cut. It might be the worst thing that can happen to an income investor, especially a retiree living on passive income.

Fortunately, with a little planning and some proactive analysis, investors can avoid many dividend cuts. The tricky part is determining the difference between a temporary rough patch and a permanent loss in earning ability. One is a buying opportunity — the other is an emergency.

Here are three favorite Canadian high-yield stocks. Are any in danger of cutting their payouts?

Altagas

Before the ink was even dry on its latest acquisition, investors were immediately questioning what exactly **Altagas Ltd.'s** (TSX:ALA) management was thinking. The purchase of WGL Holdings left the company with a massively diluted share count and up to its eyeballs in debt.

But management has a plan to dig the company out of this mess. Various non-core assets will be sold to raise cash. The prize jewel of the company — which includes its Canadian natural gas business and certain renewable power assets — will be spun off into a different entity. And increases in rates passed onto WGL customers will help ease the pain. In addition, certain growth projects coming online this year and next should help grow the bottom line.

Still, investors are skeptical. Shares currently yield more than 10%, which is a huge red flag.

In the first six months of 2018, Altagas posted funds from operations of $1.63 per share while paying out $1.10 per share in dividends. The company also expects funds from operations to increase once WGL results start hitting the bottom line. But it still has a lot of debt that it needs to get under control, and cutting the dividend 50% would put it in line with many other utility operators.

In short, I'd be very nervous about Altagas' dividend if I were a shareholder.

Inter Pipeline

Like Altagas, **Inter Pipeline Ltd.** (TSX:IPL) is also spending aggressively on an ambitious growth project. It has committed to spending $3.5 billion on Canada's first integrated propane dehydrogenation and polypropylene facility. This project is projected to add some $500 million in annual EBITDA, but not until completion in 2021.

The rest of the company is doing pretty well. Some 50% of earnings come from pipelines bringing crude from the oil sands. These pipelines were intentionally built with the long-term in mind, with current capacity of about 50%. With oil prices in the region so weak right now, there's little potential for any new oil sands investment, but Inter is prepared for the next wave of investments in the region.

And as it stands right now, the oil sands part of Inter Pipeline is still delivering decent profits.

The company's payout ratio is approximately 60% of funds from operations. This should leave it with enough wiggle room to fund the big new project and continue to pay shareholders. The board of directors also recently approved a $0.05 per share annual increase to the dividend.

The current yield is 7.6%, a payout I view as secure.

Alaris Royalty

Alaris Royalty Corp (TSX:AD) provides financing for companies that are looking for something other than bank loans. These investments are often in the form of preferred shares and offer rates of return between 10 and 15%.

It's a great business when the investments perform to plan. Unfortunately for Alaris, the last couple of years have been plagued with partners deferring payments. Other partners exercised exit clauses, which results in a nice one-time gain for Alaris but lowers ongoing cash flows.

Things have been looking up lately. Alaris recently announced a commitment to invest up to US$93 million in a new partner, which should increase earnings going forward. With this transaction, management also estimates its dividend payout ratio will drop to the 90% range after being closer to 100% of earnings.

Alaris currently pays a 8.4% dividend. The payout is still risky at 90% of earnings, though.

The bottom line

I'm not too worried about Inter Pipeline's payout, but I would be sweating if I were an Altagas or Alaris shareholder. Both those payouts look a little too risky for me.

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