2 High-Yield Dividend Stocks, but Which One Is Safe?

Description

If you're a high-risk-taker, focusing on dividend stocks that pay higher yields isn't a bad idea. When you're ready to take a position, make sure you're not buying a stock has a probability to cut its dividend.

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 and their lenders 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. During the past 12 months, Enbridge's shares have declined 19%, taking its yield to close to 7%

In the energy space, the Calgary-based **AltaGas** (TSX:ALA) is another example. To fund its acquisition of the Washington-based WGL Holdings, the utility took a significant amount of debt. That debt-load is now compromising its future growth and investors are smelling a dividend cut down the road.

This week, AltaGas announced a Balanced Funding Plan, which allows the company to sell additional $1.5-2.0 billion of assets, following its $2.4 billion of sales during the past 12 months. With its third-quarter earnings report, AltaGas has also announced to suspend its dividend reinvestment plan (DRIP) as its dividend payout ratio surged to 122% of its funds from operations.

After 43% plunge during the past one year, AltaGas shares now yield massive 11% with annual payout $2.19 a share.

Which dividend is safe?

As you can see, both Enbridge and AltaGas have a different risk-reward profile due to their unique situations. It seems obvious that AltaGas will require more adjustment before the company could meaningfully come out of its debt trap. A cut in its payout is the biggest risk that should keep investors on the sidelines despite its hefty 11% dividend yield.

Enbridge, on the other hand, is a much solid play with lots of prized assets under its umbrella that will continue to fuel future growth. The company is also in the middle of a turnaround that includes assets sales and some re-balancing in its portfolio.

Between the two, I see Enbridge as a better bet than AltaGas.

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1. Dividend Stocks
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TICKERS GLOBAL

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2. TSX:ALA (AltaGas Ltd.)
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