Yield Hogs: Can You Count on These 3 10%+ Yields?

Description

Let me introduce you to my friend Barry, who's a good guy with one major weakness.

He's addicted to big dividend yields.

No matter how many times I explain the benefits of a consistently rising income stream, he just doesn't get it. He'd rather collect a 10% yield with zero growth potential versus a 5% yield growing 5-8% a year.

On the surface, it might seem like Barry is onto something. It takes a long time for a steadily growing dividend to replace one that yields twice as much. And the original dividend would pay its huge payout the whole time, while the other one would have to grow to greatness.

There's just one problem. Big dividends have a nasty habit of going away. Often a dividend cut is accompanied by bad news, which sends the stock down. Talk about a terrible double whammy.

The secret is finding huge dividend stocks that pay out sustainable yields. This is easier said than done, but certainly not impossible. Let's take a closer look at three popular dividend stocks that all yield more than 10% and see how sustainable their payouts are.

AltaGas

I won't sugarcoat it. I'd be very surprised if **AltaGas Ltd.** (TSX:ALA) can continue paying out its eye-popping 15.2% yield much into 2019.

The problem is with its newest acquisition in the United States, WGL Holdings. While WGL has a nice asset base — it provides natural gas to customers in the Washington, D.C. area — it simply wasn't worth the $8.4 billion price tag.

Management has been busy trying to best pay for the transaction. Steps taken include some $2.5 billion worth of non-core asset sales, and a potential 2019 spin-off of prime Canadian assets. This spin-off could net the company $1 billion, but it comes at the cost of a partial sale of the company's crown jewels, so to speak.

This doesn't mean investors should necessarily avoid AltaGas today. The company trades at a low price-to-funds from operations ratio and even if the payout is sliced in half, the yield would still approach 8%. Just be warned — today's dividend is likely short-lived.

Canoe Income Fund

Canoe EIT Income Fund (TSX:EIT.UN) is one of Canada's largest closed-end funds. The fund generates income using a covered call strategy, all while taking on some debt to further goose returns.

The current payout is $0.10 per share each month, which is good enough for a 10.8% annual yield. In today's low interest rate world this might seem like a risky payout, but credit must be given to Canoe's managers. The fund has paid the current dividend each month since August, 2009.

Sometimes, a fund like this one will trade at a premium to the underlying assets as investors are willing to pay too much to get access to that sweet income stream. Canoe trades at a hair under net asset value, which is encouraging for investors who want to take a position today.

I think this 10.8% payout is solid.

Slate Office

Thanks to a weak 2018 — shares are down nearly 13% on the year — **Slate Office REIT** (TSX:SOT.UN) now has one of the highest yields on the TSX. The stock currently pays out $0.0625 per share each month, which is good enough for a 10.6% yield.

Slate has a nice portfolio of assets spread across Canada, although much of its portfolio is centered on the Greater Toronto Area. It has also recently expanded into the U.S. by purchasing two properties in Chicago. This portfolio is value priced right now; investors who buy shares today are getting a nice discount versus book value.

There are just a couple of problems. Slate's payout ratio is flirting with 100% of funds from operations and the company's balance sheet is stretched. Slate's debt-to-assets ratio is above 60%, much higher than the 50% level most REITs try to maintain.

Slate could keep the dividend steady. It depends on results in the next couple of quarters. This one really could go either way.

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TICKERS GLOBAL

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2. TSX:EIT.UN (Canoe EIT Income Fund)
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