Warning: This High-Yield Stock Is Better Avoided

Description

The first thing you'll notice about **Bridgemarq Real Estate Services** (TSX:BRE) is its high yield of 8.5%. The stock corrected more than a third from peak to trough recently, but it has quickly recovered 19% from the bottom. So, the partial recovery in the stock may still be a good chance to buy for income.

Let's explore the company to see if that's the case.

A business overview

You might be aware that Bridgemarq Real Estate Services was formerly known as Brookfield Real Estate Services. Bridgemarq provides services to residential real estate brokers and their agents across Canada.

Bridgemarq generates cash flow predominantly from fixed and variable franchise fees earned from a network of more than 18,000 real estate licensees in Canada. These agents operate under the brands of Royal LePage across Canada, Via Capitale Real Estate Network in Quebec, or Johnston & Daniel in Ontario.

Bridgemarq plans to grow its network organically and through acquisitions. The more agents it has in the network, the more fees it'll earn. The amount of fixed fees it earns is correlated with the number of agents under its network. The amount of variable fees it earns is based on transaction volumes generated by the agents.

Is the dividend safe?

About 73% of Bridgemarq's franchise fees are fixed, as they were not directly driven by transaction volumes. These fees lead to relatively stable revenue and cash flow generation that's largely insulated from market fluctuations.

From 2015 to 2017, Bridgemarq's royalties rose by about 5% per year on average to $44.2 million. In the period, its cash flow from operations climbed about 6% per year on average to $32.7 million.

In the first nine months of 2018, Bridgemarq generated royalties of $33 million, which declined by about 4.8% compared to the same period in 2017. Administration and interest expenses also increased (although management fees declined). This resulted in cash flow from operations declining about 5.6% to roughly $24.3 million.

The dividend payout ratio was under 54% of cash flow on a per-share basis. However, when factoring in the interest paid on exchangeable units, the company would be paying out nearly 123% of cash flow, which doesn't seem sustainable.

Investor takeaway

Bridgemarqs' juicy yield of 8.5% is mesmerizing, but its payout ratio looks quite stretched. Additionally, it slashed its cash distribution in 2011. So, there's a chance that it can cut its cash distribution when the market conditions turn sour.

Get safer income from this real estate stock or these utilities that offer nice yields and growing dividends.

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