Yield Hogs: These 3 Stocks Have Canada’s Highest Dividends

Description

Many dividend investors are attracted to high-yield stocks and follow a pretty simple mantra: if dividend stocks are good, then high-yielding dividend stocks must be even better.

There’s just one problem: the reason these payouts are so high is investors have lost confidence in the stability of the dividend. They’re collectively convinced a dividend cut is on the horizon. Sometimes a high-yield stock can turn things around and avoid the dreaded dividend cut. But often the market gets it right and the payout is slashed.

Let’s take a look at three of Canada’s highest-yielding stocks and see if their payouts are safe.

Just Energy

Just Energy Group (TSX:JE)(NYSE:JE) is an energy re-seller that operates across Canada, the United States, and has recently expanded into the United Kingdom, Ireland, Japan, and Germany. It has some 1.6 million customers around the world. The company has focused lately on expanding its market, diversifying into selling things like smart thermostats and water filtration systems.

Just Energy doesn’t appear to generate consistent profits on the surface, posting some pretty major losses three times in the last decade thanks to write-downs taken when energy prices went against it. Cash flow is much more consistent. Through the first three quarters of 2019, the company generated $76.4 million in funds from operations, giving it a dividend-payout ratio under 80%.

But before investors jump up and down and declare the dividend safe, they should know Just Energy has cut the payout in the past. In 2012, the company paid out $1.24 per share in dividends. That number is now $0.50 per share, which still represents a payout of close to 11%. The good news is, this new payout does seem to be sustainable.

American Hotel Properties

American Hotel Properties (TSX:HOT.UN) owns nearly 12,000 guest rooms spread out over 112 different hotels, with assets in 32 different U.S. states. The company has transformed itself from a budget lodger to a diversified operator by making a number of acquisitions since its 2013 IPO.

Unfortunately, results have been somewhat lacklustre lately. As part of its agreement to acquire certain hotels, the company agreed to renovate these assets. This hit both revenue and profits. Adjusted funds from operations fell from US$0.76 per share in 2017 to US$0.65 per share in 2018. This gives the company a 100% payout ratio — something that investors never want to see.

Management is confident results will improve in 2019, since the renovation program is pretty much over. 2019's expected payout ratio is expected to fall to the 85-90% range. That would be a positive development for the future of the US$0.054 monthly payout.

Even if the payout is inevitably cut, investors are getting a bargain with American Hotel Properties shares today. The stock trades at a discount to book value and at just over eight times adjusted funds from operations. That's why I bought shares.

Chemtrade Logistics

Chemtrade Logistics Income Fund (TSX:CHE.UN) is a distributor of chemicals like sulphuric acid, sodium chlorate, and sodium nitrate, among others. It's a fairly boring, predictable business that moves up and down depending on overall industrial demand.

Fellow Fool Ryan Vanzo outlined Chemtrade's dividend-payment history in a recent article, pointing out that despite the company's high yield, it has still offered a consistent dividend that hasn't been cut since the company's 2001 IPO. The payout hasn't been increased since 2005 either, but with a 13% yield today, most investors couldn't care less.

The payout looks to be sustainable as well. Chemtrade generated $1.61 per share in distributable cash in 2018, while paying out $1.20 per unit. If anything, the payout ratio should improve in 2019; there was a lawsuit hanging over the company's head, which has now mostly been settled.

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nelsonpsmith