



## Huge Yield Alert: These 2 Stocks Pay (Sustainable) 10%+ Dividends

### Description

Big dividend stocks are a tricky beast.

On the one hand, more income is better than less. Dividends are also taxed at [a much more favourable rate](#) than other forms of income, especially when compared to interest or earned income. And it'll take much less capital to retire on an 8% yield versus getting a 4% payout.

But on the other hand, in a world where a five-year government bond yields less than 1.5%, there's obvious risk in any dividend above 5-6%. The majority of these high yields are likely pretty solid, but the collective minds that make up the market are pretty smart. They're saying big dividend stocks are riskier. And they're right.

The good news is investors can analyze these high yielders and see whether they're in danger of cutting their payouts. Most, like the two stocks we're going to look at today, are fine. They're poised to continue paying their jumbo dividends, which is great news for folks looking for that sweet income.

## Chemtrade Logistics

**Chemtrade Logistics Income Fund** ([TSX:CHE.UN](#)) has an eye-popping 12.8% yield, which has caught the attention of a few different investors. With a payout that high, many are questioning the sustainability of the dividend.

The company has a few things going for it, however. The chemical business — it provides input materials for industries like water treatment, oil refining, and pulp and paper — is a steady performer. Chemtrade is a low-cost producer in a sector where the only thing that matters to customers is what they pay for these chemicals.

Competing against Chemtrade is no easy matter, either. It takes big upfront investments to get into the sector. The chemical business doesn't have great margins, which discourages competition. And the company has spent decades solidifying relationships with its key customers.

The last year or so hasn't been good for Chemtrade. The company posted poor recent earnings, weighed down by higher financing costs. It's also dealing with a lawsuit and saw 2018's earnings decline on a big goodwill write-down.

The good news is these results haven't really impacted the company's long-term earnings ability. Distributable cash per share came in at \$1.61 per share in 2018, and should be around that number again in 2019. Meanwhile, the stock pays \$1.20 per share in annual dividends. That gives us a payout ratio of 75%.

## Canoe Income Fund

Our other 10%+ yielder — it pays a 10.9% distribution as I write this — is completely different. The **Canoe EIT Income Fund** ([TSX:EIT.UN](https://www.tsx.com/quote/EIT/UN)) is a closed-end investment trust that uses a [covered call strategy](#) to generate fantastic income while owning Canada's top dividend stocks.

Here's how it works. The fund takes positions in blue chip stocks, usually companies that already pay attractive dividends. Then it writes covered calls against these positions, which gives it an ongoing income stream in exchange for creating an obligation to sell the stock if it makes a certain gain. Finally, it uses debt to further goose returns.

This translates into a relatively safe income stream that's currently yielding north of 10% annually. In fact, this payout has been maintained at \$0.10 per share each month since August, 2009. That's nearly a decade of uninterrupted dividends.

This fund has been a massive long-term winner, too. According to Canoe's website, a \$10,000 investment made in the fund on its IPO date in 1997 would be worth more than \$51,000 today, assuming dividends were reinvested. It turns out this high-yield security is also a serious wealth generator.

## The bottom line

A huge dividend will always be riskier than a smaller one. That much is obvious. But that doesn't mean every high yield is on the verge of getting cut. Both Chemtrade and Canoe's income fund appear poised to deliver dependable income for the long-term.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:CHE.UN (Chemtrade Logistics Income Fund)
2. TSX:EIT.UN (Canoe EIT Income Fund)

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