Will Chemtrade Logistics (TSX:CHE.UN) Cuts Its 13% Dividend Yield Before 2019 Is Over?

Description

I've written about Canadian chemicals manufacturer and distributor **Chemtrade Logistics Income Fund** (TSX:CHE.UN) before for The Motley Fool Canada, including a post highlighting what I feel are a number of undervalued, under-the-radar stocks which you can read about here.

CHE stock right now is one of the more interesting investment opportunities on the **TSX** Index for a couple of reasons.

One is that its current dividend yield, which traded at 12.81% as of Friday's close, is the highest yield currently being offered by any stock with a market capitalization greater than $500 million listed on the Canadian exchanges.

The second is that the company's share price has been brutally punished by the market, down more than 40% since the start of 2018.

So it sounds like a great high yield, contrarian opportunity, but of course, one of the more common pitfalls of investing in the high yield space, sometimes referred to as "deep value" is that often, stocks of companies that offer such extreme yields on their payouts do so only because they are so desperate to attract investment capital.

These types of scenarios can often trap unwitting investors into unfortunate investment outcomes, a phenomenon commonly referred to as "value traps."

So although I felt pretty confident about my outlook for the company, as well as its underlying earnings and cash flows, I wanted to go back and take a closer look at the stock's current 12.8% dividend yield to try and get an idea of just how secure it really was.

After all, even my forecasts for the company were correct; the unexpected news of a cut to the current dividend payout could lead to a sharp sell- off in the company's stock.

And even though I like the company as a solid medium to long-term holding, that type of event was simply something that I didn't want to be a part of.

Fortunately, the company has been kind enough to provide investors with guidance toward the type of performance it's expecting to deliver for the coming year.

In its first-quarter earnings report, management says that it expects Chemtrade to generate Adjusted EBITDA (a non-GAAP measure) of between $335 million to $375 million this year, while incurring maintenance-related capital expenditures of between $80 to $90 million, interest expenses of between $70 and $75 million, and taxes payable of between $5 million and $10 million.

That means that after accounting for capital expenditures, taxes and interest, the company expects to bring home about $170 million in free cash flow this year — assuming that it's able to hit at least the low end of its forward guidance.

Foolish bottom line

Given that Chemtrade currently pays its shareholders a monthly dividend of $0.10 per share, it's on the hook for close to $111 million in dividend payments this year based on an outstanding share count of just over 92.5 million.

That would tend to suggest that at least in theory, the company's expected cash flows of $170 million should be more than enough to support the current payout, while additionally allowing room for management and the company's board of directors to use any available surplus funds to pay down debt, invest in profitable organic growth opportunities or even make a few small bolt-on acquisitions.

Given that the risk of a dividend cut for the company appears low in 2019, I continue to like the CHE shares as an attractive high yield investment opportunity.

Making the world smarter, happier, and richer.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks

2. Investing

Date
2025/09/29
Date Created
2019/07/04
Author
jphillips