Is This Little-Known Income Fund's 12.12% Dividend Yield Worth the Risk?

Description

Dividend stocks are excellent shares to have in your arsenal in any case, but before a potential recession these stocks become almost a necessity. However, not every dividend stock is created the same.

While a company can seem impressive with a high dividend yield and a cheap share price, that stock may not have the historical performance, consistent payout, and future outlook that you would want as an investor.

That's why today I'll be looking at **Chemtrade Logistics Income Fund** (TSX:CHE.UN). The company has been at the top of the **S&P/TSX** as the highest dividend yield stock on the composite, but given the current environment, investors need to be careful.

The stock has a cheap price, and a high yield, setting off a red flag. So let's dig into whether this stock is worth it, or too good to be true.

Historical performance

Chemtrade operates as a diversified business that provides industrial chemicals and services to customers across the world. The company has a large market share, allowing management to negotiate for services and agreements with its global clientele. Yet as of writing, shares trade near 52-week lows at $9.62 per share.

That's the problem with the company's overall business model, it's cyclical. If you look at the company's share performance, it's gone up and done over the last two decades, trading anywhere between $5 and $20 per share. The stock is down 11% year to date.

Unfortunately, it looks like this lower performance could continue, especially after Chemtrade's recent earnings report. The company has had to put aside $65 million in litigation reserve, increasing the reserve from $40 million after pursuing civil action against General Chemical.

Revenue was down 2% to $396.7 million compared to the same period last year, and net loss was up to $57.6 million from $50.4 million last year.

President and Chief Executive Officer Mark Davis, chalked it up to “weakness in certain specialty chemical products,” especially the electrochemical segment.

Dividend performance

So here’s where things get more questionable. While the dividend yield is extra high at more than 12% as of writing, that dividend yield hasn’t budged in years. While the stock offers a $1.20 dividend yield annually, dished out every month, before that it was a lot lower at around $0.25 per year. Since 2015, that $1.20 yield hasn’t moved one iota.

That makes the stock movement interesting to say the least. While you can count on this company giving out its dividend yield, you’ll definitely want a strong-performing stock that can help along your portfolio. I’m not so sure you’ll get that with Chemtrade.

Foolish takeaway

Chemtrade simply doesn’t have the payout history that one would want to see from a dividend stock. The history it *does* have isn’t all that impressive, with a payout that’s remained stagnant for the last five years.

The recent earnings are also worrying for potential investors, as before a recession this stock could continue to drop. While people will continue to need these industrial products, they can certainly cut back in the near future.

Should this happen and the stock continues to drop and earnings continue to slip, that already stagnant dividend yield might be cut back. Declining revenue and further losses would be incredibly hard for a company like Chemtrade.

So while things could turn around in the future, it might not be for long, and definitely not forever. For my money, I wouldn’t recommend Chemtrade as an ideal dividend stock, especially when there are other stronger dividend stocks out there.

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