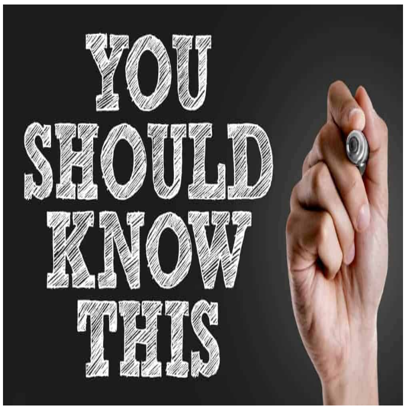

Is This 12.75% Dividend Yield in Danger of Being Cut?

Description

A high-yielding stock can be very appealing to investors, as it could become a great source of cash flow. However, the big risk with dividend stocks is that there is never a guarantee that payouts will continue at the current rate. Whether the company decides to stop paying them due to a poor outlook for the industry or things get so dire that it has no choice but to reduce or eliminate dividends, investors should never take the payouts as a given.

And when yields are high, especially over 10%, investors should be taking a look hard look at a stock to see why the yield as high as it is and whether it's sustainable, because in many cases, it's not. One stock that has recently gotten my attention is **American Hotel Income Properties REIT LP** (TSX:HOT.UN), which is yielding around 12.75%. The company is still paying US$0.054 every month, and it hasn't raised its rates. Its share price, however, has fallen by 25% over the past 12 months.

American Hotel's financials have left a lot to be desired by investors, as two of the company's last three quarters have been unprofitable. In its most recent reporting period, the company was able to produce a profit, but at a margin of about 6.5%, there's not a lot of room for error.

Can American Hotel afford its dividend for much longer?

Over the past 12 months, the company has generated earnings per share (EPS) of just US$0.05, which is short of even the amount of dividends it pays in one month, let alone a year. Unless there's a big improvement in the company's bottom line, American Hotel's dividend could be in some serious trouble. Unfortunately, this hasn't been a new problem for the company as in 2018 its EPS was just US$0.11, and in 2017 it was at breakeven.

In three of the past four quarters, the company has paid out more in dividends than the amount of free cash flow that it has generated. Either way you look at it, American Hotel's payout ratio looks to be unsustainable. Even if the share price recovers, ultimately profitability and cash flow are what matters when it comes to dividends, and right now, neither of those look particularly strong for the stock.

Should investors sell shares of American Hotel?

As tempting as the dividend may be, holding shares of American Hotel may prove to be too risky. Not only is the dividend questionable at this high of a rate but the stock has also been struggling. Investors may be expecting to see a reduction in the dividend and that could give the stock some life. Until that happens, however, investors should exercise some caution, as this could be the case of a yield looking too good to be true.

With a very high yield, and the company not being able to consistently post a profit, American Hotel is simply not a stock I'd buy today. Despite the declining share price, the stock is still trading at around its book value, and I wouldn't be surprised if American Hotel continues to drop in value.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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Date
2025/08/17
Date Created
2019/09/19
Author
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