Investors: The 14% Payout of This High-Yield Dividend Stock Is at Risk!

Description

The current dividend of **Medical Facilities** (TSX:DR) is a whopping 14.04%. But after a disastrous quarter and the upcoming potential changes to the U.S. healthcare system, this dividend payout is in jeopardy!

Disastrous quarter

The share price of Medical Facilities has shed half its value year to date. After the second-quarter results were announced on August 8, the share price fell 36% in one day.

In the earnings release, the company reported revenue of $101 million. This represents a decrease of 5.2%. Medical Facilities generates nearly all of its revenue from the facility fees charged to patients or their insurance. Adjusted EBITDA was $19.1 million compared to $23.9 million in the second quarter last year.

Most troubling from the release was the report on cash available for distributions, which dropped to $4.9 million from $11.7 million in the same quarter last year. This pushed the payout ratio, the proportion of earnings paid as dividends, to 179%. In 2018, this payout ratio was 74.3%.

Acknowledging the horrible quarter, CEO Robert Horrar said the following:

> "While we are disappointed with our second-quarter results, we continue to work with our physician partners to improve same-facility performance, including adding access points and expanding our services. During the quarter, we recognized a goodwill and other intangibles impairment charge of $29.5 million related to the continued underperformance at Unity Hospital. This non-cash charge does not affect our cash balances, liquidity, or operating cash flows. Notwithstanding this charge, we are confident that we have put in place strategies to deliver improved results."

Healthcare changes in the U.S.

The healthcare industry in the U.S. is expected to undergo dramatic changes in the next few years, and these changes will impact all healthcare providers, including Medical Facilities.

Although Medical Facilities is headquartered in Toronto, the company maintains facilities only in the United States, with none in Canada. Through its partnerships with physicians, the company owns and operates five specialty surgical hospitals and one ambulatory surgery centre. The company's specialty hospitals offer non-emergency surgery, imaging and diagnostic services, pain management, and urgent care treatment. Through its partnership with NueHealth, LLC, Medical Facilities owns controlling interest in seven ambulatory surgery centres.

Healthcare expenses per capita in the U.S. are approximately twice that of any other developed country in the world. The cost for every household is estimated to be more than $8,000 per year because of lost wages, higher premiums, taxes, and additional out-of-pocket expenses.

It's no wonder that health care is shaping up to be the biggest issue of the upcoming presidential election!

Experts blame the astronomical costs of U.S. health care on exorbitant administrative costs, lack of transparency in the pricing of medical procedures and supplies, and the extraordinary costs of prescription drugs. In most countries, the government negotiates drug prices with the drug makers. But in the U.S., very few organizations, including Medicare, are allowed to negotiate directly with drug companies. Medicare is the government insurance program for those aged 65 and older.

The bottom line

Regardless of the election results, the U.S. healthcare system will no doubt radically change over the next few years. This change will have significant impact on all healthcare providers, especially facilities operating outside the traditional hospital networks, like Medical Facilities. For this reason alone, I would steer clear of Medical Facilities stock.

If you are enticed by the hefty dividend, I would be worried that the company cannot maintain this dividend indefinitely, especially if it has a few more quarters like the one just ended.

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