Yield Alert: Lock In This 10.9% Dividend by November 30

Description

Many Canadian investors are constantly on the lookout for high-yield opportunities, eager to exchange their cash for a dependable income stream.

Investors must be careful when choosing dividend stocks, doing the proper analysis to ensure a dividend cut isn't likely. Even after meticulously studying income statements and analyzing cash flow, it still isn't enough. Some surprise will rear its ugly head, and investors have to deal with a dividend cut.

There's no way for investors to completely avoid this possibility, but if we properly analyze a potential opportunity we can at least minimize the chances of the dreaded dividend cut.

Let's take a closer look at one high-yield stock that looks to have a pretty solid payout — a company that yields an eye-popping 10.9%.

The opportunity

Chemtrade Logistics (TSX:CHE.UN) is one of the world's largest producers of specialty chemicals. Operations include producing sulfur products for the petroleum and electronics industries, various chemicals used in water treatment plants across North America, and various types of electrochemicals used in everything from the pulp and paper industry to steel production.

One thing inherent about the chemical industry is, it's competitive. There's nothing to separate one company from its competitors on the product side, since every player in the space delivers an identical product to customers. A player in the industry can really only compete on price and on service. This translates into low gross margins, with customers generally choosing the lowest-cost provider.

Chemtrade has also had to deal with some internal problems. There were supply chain issues. Certain plants had some unplanned outages. And the company has been forced to put cash aside for legal troubles for one of its subsidiaries. These hiccups led some investors to believe the dividend may be cut, which sent shares lower.

The good news is many of these issues seem to be behind Chemtrade Logistics. The company's recently released third-quarter numbers saw profitability creep slightly higher, despite lower prices for many of its chemicals. It also posted solid cash flow numbers, and it looks like the litigation fund won't need any additional capital infusions.

Collect a 10.8% yield

Another piece of good news is, despite all the problems that have recently plagued Chemtrade, the dividend looks to be pretty healthy.

Through the first three quarters of 2019, the company earned $1.30 per share of distributable cash. It paid $0.90 per share in dividends during that same period. That translates into a 69% payout ratio, which indicates the distribution is healthy. Most other double-digit yields see payout ratios much closer to 100% of cash flow.

It also indicates the stock is very cheap. Chemtrade is on pace to generate $1.73 per share in distributable cash in 2019. Shares trade hands at just over $11 each as I type this. That gives the company a rock-bottom price-to-distributable income ratio of just 6.4 times.

This works out to an eye-popping 10.8% yield. That's enough to turn a $10,000 investment into something that generates $108 each and every month. That is some serious passive income.

Investors should also remember that Chemtrade has maintained the current $0.10 per share monthly distribution since 2007. Although no 10.8% yield is truly ultra-safe, investors can feel good about management's desire to continue the dividend streak.

The bottom line

Chemtrade Logistics pays one of the safest +10% dividends out there. The payout is protected by the steady demand for the firm's products, a low payout ratio, and a cheap valuation on shares.

But don't delay. You'll have to own shares by November 30 at the latest to qualify for next month's payout.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/03
Date Created
2019/11/11
Author
nelsonpsmith