TFSA Investors: 1 High-Dividend Stock I Would Avoid in 2020

Description

Russel Metals (TSX:RUS) is one of the largest metals distribution and processing companies in North America. The company primarily distributes steel products and conducts its distribution business in three principal business segments, which are metals service centres, energy products, and steel distributors.

The World Steel Association released its Short Range Outlook report for 2019 and 2020 on October 14, 2019. Below are a few of the highlights with respect to the United States:

- The U.S. construction sector is expected to weaken in 2019 with no recovery in 2020.
- In the U.S., the auto market is expected to decelerate with no growth in 2019 and only a slight increase in 2020.
- After strong growth in 2017-18, global mechanical machinery is expected to decelerate or remain flat in 2019-20, as the slowdown of the global economy and continuing trade tensions hurt global investment activities.

From all accounts, it looks like the North American steel industry is in for a no-growth year in 2020. When you are looking at a sector like this, you want to invest in companies that are doing their best to increase operational efficiencies and explore new markets. Unfortunately, Russel Metals doesn't give you that reassurance. Take a look at its numbers for the third quarter of 2019.

In the third quarter of 2019, Russel Metals generated a net income of $18 million on revenues of $0.9 billion compared to a net income of $68 million on revenues of $1.1 billion in the third quarter of 2018. Revenues in the metals service centres decreased by 15% to $474 million for the quarter compared to the same period in 2018.

Same-store tonnes shipped in the third quarter of 2019 were approximately 5% lower than the third quarter of 2018. In Q3 of 2019, the average selling price was 11% lower than the 2018 third quarter. Gross margins in the last quarter were 18.5% compared to 24.3% in the third quarter of 2018 and 18.7% in the second quarter of 2019.

A slowdown in earnings

One fact to keep in mind is that Russel Metals is in a very cyclical business. For the last four quarters, EPS (earnings per share) for Russel has consistently fallen. It reported earnings of $0.74 in the fourth quarter of 2018, $0.55 in the first quarter of 2019, $0.5 in the second quarter of 2019, and $0.37 in the third quarter of 2019.

All of these figures don't paint a very encouraging picture for the company. It seems like the company is in a rut it can't get out of. If there is a protracted slowdown in the world economy in 2020, Russel is in for another bad year.

However, one thing that Russel has going for it is its dividend. In November this year, the company declared its 71st consecutive quarterly dividend. Russel has a dividend payout of 6.9%, which is great for a passive-income investor, but is it worth the risk of the stock staying stuck at the same price for the last five years?

Russel stock was trading around $25 in December 2014 and is trading around $22 currently. There are other stocks that offer decent dividends and better growth potential.

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