2 High-Dividend Stocks for Income Investors: Only 1 Is a Buy

Description

Defensive investors tend to gravitate towards dividend stocks. They like the kevlar of having an income guarantee, even in tough times. And it looks like times are going to get tough in the near future, as global tensions see-saw.

However, investors should take care that they don't miss the woods for the trees. Just because business pays a high dividend regularly doesn't mean it is an attractive investment.

We'll look at two companies that operate in the same space but take care of their monies differently. On the face of it, they have a lot going for them. They operate in the retirement space (and as Canadians continue to age, their business prospects will only get better), have strong management teams with stable cash flows, and operate at scale, which means they are well placed to take advantage of the aging Canadian population.

Sienna Senior Living (TSX:SIA) is a great stock to accumulate over the next two to three years. The company is a leading seniors' living provider with 83 seniors' living residences in key Canadian markets. Sienna offers a full range of seniors' living options, including independent and assisted living, long-term and residential care, and specialized programs and services.

The company's revenues and earnings have grown from $452.6 million and $7.4 million in 2015 to $642 million and $9.88 million, respectively, in 2018. Analysts expect the company's sales to touch $684 million by 2021.

Its long-term care portfolio remained virtually at full occupancy at 98.2%, with waiting lists for each of its residences as of the third quarter of 2019. At the end of September quarter, Sienna's debt-to-gross book value was 46.5% — a reduction of 180 basis points compared to Q3 of 2018.

The company recently increased its dividend. Its dividend yield stands at a healthy 5.14%. The company is focused on a number of initiatives to improve occupancy in the retirement portfolio, which includes enhancing assisted-living services offered to residents to reduce the attrition rates to long-term care. This seems a safe buy in a possibly turbulent market.

Extendicare’s high payout a concern

Extendicare (TSX:EXE) is one of the largest providers of care and services for seniors across Canada that operates through its network of 120 senior care and retirement living centres (67 owned/53 managed) and home healthcare operations under the Extendicare, Esprit Lifestyle, and ParaMed brands.

A lot of investors get excited by the prospect of a passive income. The company has a dividend yield of 5.66% and has been paying dividends for over 10 years. However, investors would do well to not get blindsided by the high dividend payout.

The company’s dividend payout has actually fallen in the last decade. In 2010, Extendicare used to pay a dividend of $0.84 per share. That went down to $0.48 per share in 2019. The company’s payout ratio stands north of 100% (in the last 12 months), which is a cause of concern.

It’s no surprise that shares were trading at $8 in October 2012 and have crossed $9 in January 2020. Extendicare has ended the last quarter with a cash balance of $96.8 million and a debt balance of $560 million. Its operating cash flow stood at $41.4 million.

Extendicare shares were negatively impacted after its poor September quarter results, and prudent investors would do well to avoid this stock.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:EXE (Extendicare Inc.)
2. TSX:SIA (Sienna Senior Living Inc.)

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