



Investors: Can You Count On These 3 +10% Yields?

Description

Many investors are drawn to the biggest dividends they can find, as they try to maximize their passive-income stream.

There's just one problem: many of these yields aren't sustainable, and often bad things happen to the stock price when a dividend is cut. That's the kind of double whammy investors want to avoid.

Some folks simply avoid all high-yield dividend payers, creating hard and fast rules, so they don't waste any time researching these stocks. But I think this strategy is too rigid. Some high-dividend stocks are diamonds in the rough. You just have to search through some duds to find them.

Let's take a closer look at three such stocks. Can they all afford their generous payouts?

Vermilion Energy

Vermilion Energy ([TSX:VET](#))([NYSE:VET](#)) is an energy producer with assets scattered around the world. It has the majority of its production in North America, but it also produces energy in nations like France, Germany, and Australia, among others.

This overseas production is particularly attractive, because it gets Brent Crude prices, which have been higher than North American prices for years now. Although these assets are only projected to be a little over one-third of Vermilion's total production in 2020, they should account for approximately half its free cash flow.

The company has also done an excellent job growing production over the last few years, increasing investment while still keeping the balance sheet in good shape. In 2016, it produced just over 60,000 barrels of oil per day. 2020's production should be between 100,000 and 103,000 barrels per day.

Operationally, Vermilion has done a nice job. But what about the future of its 12.9% dividend?

Ultimately, it comes down to this: Vermilion is highly dependent on the price of [crude oil](#). If it stays

around the same or goes up from here, the dividend is fine. It can afford both capital expenditures and the payout. But if crude tanks again, the payout is in serious jeopardy.

Chemtrade Logistics

Chemtrade Logistics ([TSX:CHE.UN](#)) is in the chemicals business. It provides various materials needed for oil refining, water treatment, and pulp and paper production. It's a competitive business, with buyers caring mostly about price for these commodity products.

The company has also been dealing with a few issues lately, including a lawsuit against a recently acquired subsidiary. It was forced to put cash aside to deal with that contingency. It also reported lacklustre numbers because of transportation issues.

The good news is, results have somewhat stabilized. Revenue was down slightly in its most recent quarter, but cash flow continued to be strong. Various financing issues were also resolved during the last few months, leading investors to breathe a little easier.

Through the first nine months of 2019 — full-year results aren't out yet — the company earned \$80.6 million in free cash flow. It paid \$83 million to shareholders. That puts this 10.8% yield on thin ice.

American Hotel Properties

American Hotel Income Properties REIT ([TSX:HOT.UN](#)) owns hotels in secondary cities in the United States. The portfolio today consists of 8,887 guestrooms spanning 79 different hotels.

The company has been busy lately, spending aggressively on a renovation program to update some of its marquee assets. It sold its budget hotel division and bought more upscale property. These new assets will increase average revenue per room but are also much more economically sensitive.

The renovation program impacted the bottom line, which then increased the company's payout ratio. On a trailing 12-month basis, the US\$0.054 per share dividend is approximately 92% of funds from operations. This high payout ratio is the main reason shares yield 11.5%.

Management is confident the payout ratio will return to normal in 2020; they project a 72% payout ratio going forward. But I don't think investors will really believe it until the company can post a quarter or two of improved numbers.

This could be a great buying opportunity to lock in a truly sustainable double-digit yield.

The bottom line

There's a reason why these stocks all yield more than 10%: they all have risky payouts.

I don't see any big risk that any of these dividends will get cut in the next few months, and I think all three of these stocks can maintain their payouts long term. Investors who get in today will have to monitor all three quite closely, just in case.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. TSX:CHE.UN (Chemtrade Logistics Income Fund)
3. TSX:HOT.UN (American Hotel Income Properties REIT LP)
4. TSX:VET (Vermilion Energy Inc.)

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Date

2025/08/17

Date Created

2020/01/19

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