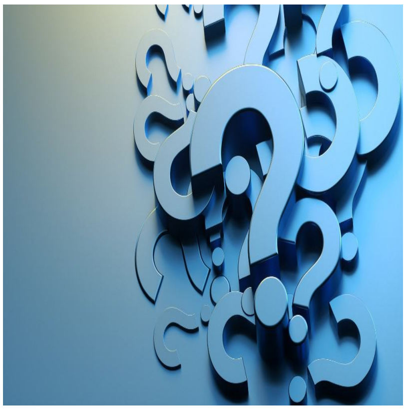

Is This Stable 8.8% Dividend About to Get Totally Disrupted?

Description

One of the important things an investor must do before buying a high-yield stock is doing a little work to analyze the underlying numbers. After all, a dividend is only as good as the earnings stream behind it.

Some investors will look backward with their analysis, pointing to recent results proving that the payout is sustainable. But we must go further than that. It's doubly important to try to predict a company's earnings stability going forward.

Every company has risks. That much is obvious. The tricky part lies in determining just how much these risk factors will matter in the future. Some won't impact the bottom line at all, while others could make all the difference in the world.

Let's take a closer look at one company with some potential red flags, a real estate company that pays one of Canada's best dividends. Can it maintain its generous 8.8% yield?

A solid industry

Bridgemarq Real Estate Services (TSX:BRE) owns some of Canada's best-known real estate brands.

Its main asset is the trademark behind Royal LePage, a brand that dominates the real estate brokerage market in Ontario. Some 60% of all Realtors in Canada's most populous province operate under the Royal LePage brand, making it Canada's top producer in terms of sales volume.

It also owns Via Capitale in Quebec and Johnston and Daniel, two solid niche brands. Together, close to 20,000 Realtors operate under these three brands.

The company has recently been taking steps to shift from a per-transaction business model to something that will generate more stable revenues should the real estate market crash.

Agents now pay more in monthly fees, and brokerages focus on other ancillary services like business-related property needs. Bridgemarq has also been investing in technology to help its Realtors be more productive.

The shift seems to be working. In its latest quarter, revenue increased from $11.1 to $11.6 million, an increase of nearly 5% compared to the same quarter as last year.

Net earnings decreased because of some non-case charges, but cash flow was relatively stable. In fact, the company reported distributable cash flow of $1.27 per share over its last four quarters compared to a dividend of $1.01 per share. That's a payout ratio of under 80%.

But what about the future?

This is when the analysis gets a little tricky.

One fee Canadians absolutely hate paying is real estate commissions. We view them as a necessary evil; it's the price we've got to pay to get access to Realtor.ca, the go-to website every buyer checks out before going to look at houses.

The stranglehold full-service Realtors have on this all-important resource is beginning to weaken. Thanks to a court order ruling that discount brokers and brokerages catering to do-it-yourself listings can now list houses on Realtor.ca, these upstart competitors are beginning to gain some market share.

So far, it's been an uphill battle. Canadians still mostly choose to list their property with full-service agents, begrudgingly paying big commissions because the business model has worked for so long. But these new competitors are attracting cash from venture capitalists, and they're growing.

Will they grow enough to make a big dent in Bridgemarq's brands? That remains to be seen, but it's certainly possible.

Bridgemarq shares trade at about 12 times its distributable cash flow, which tells me the risk is largely priced in. Shares are cheap for a pretty obvious reason, in other words.

The bottom line

I own Bridgemarq shares and feel comfortable holding them for the next little while at least. The risks of disruption are there, but it's quite minimal at this point. Besides, if the risk really materializes, the company can hedge by buying one of these discounters.

This means that if you're looking for a sustainable 8.8% dividend, Bridgemarq shares are a pretty good bet.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BRE (Bridgemarq Real Estate Services Inc.)

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