This 13% Dividend Stock Deserves a Closer Look

Description

There's plenty of attractive dividend stocks now that the stock market has plunged. Lower stock prices means higher dividend yields. But there's a catch – companies need to maintain their payouts for a dividend to be sustained.

Given the economic damage we've already suffered in 2020, it seems likely that investors will have to bear plenty of dividend cuts ahead. I wanted to pick a high dividend stock and take a closer look to see if it presented an opportunity or an income trap.

Montreal-based asset manager **Fiera Capital Corp.** (TSX:FSZ) caught my attention this week. The stock offers an insanely high dividend yield: 13%. Last week, the price was 18% lower and the yield was hovering around 15%. But can investors really expect this double-digit passive income going forward? Here's a closer look.

Cash flow

Fiera says it's the second largest publicly traded asset manager in Canada. The company offers a wide range of investment strategies. Clients range from retail to institutional and high net worth.

According to the company's latest report, the vast majority of its client base is located in North America. U.S. and Canadian clients accounted for 78% of revenue last year. They also account for a majority of assets under management (AUM).

AUM grew to $170 million last year. Fiera earns income by investing this capital and extracting performance and management fees. 44% of AUM was invested in public equities across the world. Considering the fact that global stock markets have declined this month, it seems fair to assume Fiera's AUM could be much lower in 2020.

It also seems likely that some clients, institutional or retail, could withdraw capital this year, which means the AUM will shrink. Fiera's performance fees and management fees could be substantially lower. This will impact the dividend stock.

Meanwhile, the company has considerable debt on its books. Long-term debt was 44% higher than the value of the company's equity. It was also eight times larger than the company's cash and cash equivalents.

Dividend stock support

There is some good news in Fiera's balance sheet. A large portion of the AUM (45.6%) is invested in fixed income strategies. These may not lose as much value as the equity or private equity portfolio.

Fiera's leverage-adjusted cash flow, $139 million, was more than twice its dividend payout last year, $68 million. Cash and cash equivalents, $96.2 million, can cover the dividend as well.

Bottom line

Fiera Capital has enough runway to sustain its dividend for the next year. However, if the stock market or fixed income market tumbles further in 2020, Fiera's cash flows could take a bigger hit. If cash flow declines 50% or more, the company may have to cut or suspend the dividend to keep servicing its debt.

Investors shouldn't expect a 13% dividend stock yield. However, even if the dividend is cut substantially, Fiera could still be considered one of the most lucrative dividend stocks on the market. If the stock market surges and the cost of debt declines substantially, Fiera could be the ultimate contrarian bet of 2020.

Keep a close eye on this dividend stock.

CATEGORY

1. Dividend Stocks

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