3 of the Highest-Yielding Income Stocks on the TSX Index

Description

Chasing the highest-yielding income stocks is typically a losing proposition. Despite this, many retail investors still fall prey to the high-yield trap.

In 2020, there have been many high-yield stocks. The market correction led to record yields, and many of these were among the more than 80 TSX-listed companies, which either cut or suspended dividends. Now that the pace of dividend cuts is slowing, are the highest-yielding income stocks now safe?

Let's take a quick look at three of the highest-yielding income stocks on the TSX index.

	Yield	Payout Ratio	Performance (YTD)
Brookfield Property Partners (TSX:BPY.UN)(NASDAQ:BPY)	11.29%	74.87%	-32.91%
Chemtrade Logistics Income Fund (TSX:CHE.UN)	11.07%	N/A	-50.86%
Sienna Senior Living (TSX:SIA)	10.32%	1,560%	-50.33%

A top-managed company

The Brookfield family of companies are some of the best-managed companies in the country and are strong income stocks. Despite this, there are several headwinds impacting Brookfield Property Partners's performance. Most notable is weakness in the retail industry.

It is important to note that retail was a drag on results pre-pandemic. This led to a lower-than-expected dividend raise of 0.8% in 2020, well below the company's 5-8% target. The pandemic further compounding the issues. Rent collections in April were only 20% in the retail segment.

Is the dividend safe? Last week, Brookfield Property Partners announced that it intends to buy back approximately $890 million worth of shares. How could it afford to do that if the dividend was not safe? The company has what most don't: a parent company with big pockets.

Brookfield Property Partners will fund the buyback by drawing on the $1 billion equity commitment it received from **Brookfield Asset Management**. This will result in a material drop in share count that should enable the company to avoid a dividend cut.

Is a second cut on the way?

Chemtrade Logistics is the only one on this list that's already cut the dividend. It did so back in early March, when it cut the dividend to $0.05 per share. Fast forward a few months later, and Chemtrade's yield is once again in the double digits.

Chemtrade isn't exactly a standout performer. The company's stock price has been in a steady downtrend since 2015, and there is little confidence that the company will rebound in a meaningful way.

One-time events are skewing the current payout ratio as a percentage of earnings, so let's leave this aside. Is the dividend safe when compared against cash flows? I would consider it mixed at best. The dividend seems well covered by operating cash flow (OCF) (34%), but the ratio jumps considerably when compared to free cash flow (FCF) (85%).

As one of the highest-yielding income stocks on the TSX Index, investors should approach it with an abundance of caution. The company may yet announce a second cut or suspend the dividend entirely.

A struggling healthcare stock

Unfortunately, Sienna Senior Living has been in the headlines for all the wrong reasons. As a long-term-care home operator, the company is under the microscope as a result of the current pandemic. Some of Sienna's properties are at the centre of high death tolls.

Lawsuits have already been launched against the company, and Sienna is among one of the companies being investigated by the Ontario provincial government. This could lead to criminal charges. Likewise, it recently lost its president and CEO and vice-president of operations in light of its handling of COVID-19.

The dividend accounts for 73% of OCF and 94% of FCF. Although the dividend is covered by cash flows, there isn't much room for error. Of the three highest-yielding income stocks, Sienna is the most likely to announce a dividend cut.

Are these income stocks buys today?

None of these income stocks make for particularly attractive investments at the moment. All are facing their own headwinds, and, in most cases, the dividend looks suspect at best.

Of the three, Brookfield's dividend appears the most sustainable. This, however, is not a result of strong performance but a defacto bailout by parent company Brookfield Asset Management. This lifeline will enable the company to navigate the current crisis better than most retail REITs.

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:BPY.UN (Brookfield Property Partners)
2. TSX:CHE.UN (Chemtrade Logistics Income Fund)
3. TSX:SIA (Sienna Senior Living Inc.)

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