Is it a Trap?! 3 TSX Stocks With Ultra-High Dividend Yields

Description

Dividend investing could be the appropriate strategy in 2023 if a recession is inevitable. The TSX has a heap of dividend-paying stocks available to Canadians desiring to earn additional income this year. **Cardinal Energy** (TSX:CJ), **MCAN Financial Group** (TSX:MKP), and **American Hotel Income Properties** (TSX:HOT.UN), or AHIP, are among the attractive options, because the dividend yields are more than 9%.

Ultra-high yields are enticing, but you need to conduct due diligence on companies paying outsized dividends. Some financially distressed or troubled companies offer high yields to lure investors. These Canadian stocks could be dividend traps.

Oil & natural gas company

Energy was the top-performing sector in 2022, and Cardinal Energy counts among the winning investments. Besides the impressive 87.2% total return last year, this small-cap energy stock has gained 181.45% in 3.01 years, or a compound annual growth rate (CAGR) of 41.06%. At $6.94 per share, the forward annual dividend yield is 9.54%.

The $1.07 billion oil & natural gas delivered strong financial and operational results in the third quarter (Q3) of 2022. Because of the 34% increase in realized commodity prices, petroleum and natural gas revenue jumped 50% to $179.44 million versus Q3 2021. While net earnings declined 23% to $188.82 million, cash flow from operating activities soared 267% year over year to $268.57 million.

In the nine months that ended September 30, 2022, Cardinal Energy's net debt declined by 71% to $62 million versus the same period in 2021. According to management, the $97 billion capital budget should deliver a 3% year-over-year average production growth. Cardinal will apply free cash flow first to net debt until it reduces to zero.

Loan company and MIC

MCAN Financial Group, formerly MCAN Mortgage, falls under the Trust and Loan Companies Act (Canada). This $502.92 million loan company is subject to the guidelines and regulations of the Office of the Superintendent of Financial Institutions Canada (OSFI). At $14.66 per share, the dividend offer is a juicy 9.6%.

MCAN is also a Mortgage Investment Corporation (MIC) under the Income Tax Act (Canada). Besides possessing a lower operating leverage than other regulated financial institutions, MCAN can deduct dividends paid to shareholders from its taxable income.

Its president and chief executive officer Karen Weaver said, “Our business has various levers and attributes that are positive for managing net mortgage interest income in a rising interest rate environment.”

Recovery mode

AHIP owns and operates premium-branded, select-service hotels in the secondary metropolitan markets in the United States. At only $2.74 per share, this $215.85 million real estate investment trust (REIT) pays a lucrative 9.38% dividend. The REIT is in recovery mode following the COVID crisis.

The hotel landlord had to suspend dividend payments and preserve the balance sheet in 2020 to stay afloat. In Q3 2022, AHIP achieved its highest average daily rate and revenue generated per available room since the onset of the pandemic. But despite strong occupancy and rate trends, the payout level might not be sustainable.

Safer option

Cardinal Energy is a safer option among the high-yield stocks in focus. Market analysts expect the energy sector to outperform again in 2023. Meanwhile, the real estate sector will continue its slump due to rising interest rates.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:HOT.UN (American Hotel Income Properties REIT LP)
3. TSX:MKP (MCAN Mortgage Corporation)

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