2 Dividend Stocks to Buy, and 1 to Avoid

Description

When searching for dividend stocks, it can be very tempting to always go for the highest yield. But don't fall into that trap; not all dividends are created equal. You have to ask yourself whether the companies have sustainable business models, a solid balance sheet, and a dividend that is actually affordable.

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If these conditions are not met, then a dividend cut could be on the horizon, along with a plummeting share price. If you don't believe me, look at what happened to **Just Energy Group** (TSX: JE)(NYSE: JE), whose stock is down 25% and dividend is down 40% in the past year.

On that note, below are two dividend stocks to buy, and one you should stay away from.

Buy: BCE

If you're looking for dividends, there's a strong argument for all three of Canada's big telecommunications providers. After all, they generate very consistent earnings from subscription-based services, perfect for paying out a big dividend. And with such limited competition, despite the government's best efforts, there's no reason to expect that to change.

Of the three, **BCE Inc** (TSX: BCE)(NYSE: BCE) has the highest dividend yield, currently sitting at 5.0%. And this is a dividend that has been raised every year since 2009. So if you're looking for steadily growing income, this is a great option.

Buy: Power Corporation

Power Corporation (TSX: POW) is an unfamiliar name to most Canadians, but make no mistake this is a very formidable organization.

Power owns majority stakes in well-known brands like Mackenzie Investments, Great-West Life Insurance, and Investors Group. The conglomerate also owns stakes in various international businesses, some of them outside of financial services altogether. So by buying Power Corp shares, you get some diversification as a bonus.

Power Corp has a nice dividend too, one that yields 3.7% and has stayed steady for years.

Avoid: Crescent Point

Crescent Point Energy (TSX: CPG)(NYSE: CPG) has a dividend that would tempt any income investor, currently yielding 6.1%. But there's a catch.

Crescent Point earned $0.37 per share in income and $0.58 per share in free cash flow last year, yet pays out a dividend of $0.23 per month. The company affords this by offering a 5% incentive to any shareholders willing to take their dividend in shares rather than cash. As a result, Crescent Point only had to pay out 39% of its dividends in cash last year.

The problem with this strategy is Crescent Point's share count, which increased by 17% last year, after increasing by 19% the year before. And if you're taking your dividend in cash, you're not getting enough compensation for this dilution. You're better off avoiding this company, despite the high yield.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:VRN (Veren)
3. TSX:BCE (BCE Inc.)
4. TSX:POW (Power Corporation of Canada)
5. TSX:VRN (Veren Inc.)

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