3 High-Yielding Dividend Payers to Buy Now

Description

With the 10-year Canadian government bond yield sitting at 2.13%, 1-year cashable GICs yielding approximately 1.30%, and corporate bond interest receiving unfavorable tax implications compared to dividends, there is no real alternative to equities for yield.

Although many Canadian companies offer dividend yields above 4%, investors need to be extremely cautious not to make investment decisions based on yield alone. Instead, investors should search for companies with strong yields, a sustainable payout ratio (based on both net income and cash flows from operations), and good dividend growth. Here are three companies that meet these requirements.

1. Canadian Oil Sands Ltd.

Canadian Oil Sands Ltd. (TSX: COS) currently offers a dividend yield of 6.78%, which is one of the highest on the TSX. Despite this, the yield seems secure. Based on the trailing 12 months, Canadian Oil Sands has a payout ratio of 86%, which is based on an earnings per share of 1.62.

For oil companies however, it is more wise to use cash flows to calculate payout ratio, since it is a capital-intensive industry, and using earnings per share includes many non-cash charges that can distort the true amount of cash a company has to pay its dividends.

For Canadian Oil Sands, using cash flows from operations instead of earnings per share to calculate payout ratio gives a ratio of 72%, which is a fairly sustainable level. In addition, Canadian Oil Sands revised upwards its 2014 cash flows from operations to $1.3 billion, which would result in an even better payout ratio of 52%.

2. BCE Inc.

BCE Inc. (TSX: BCE)(NYSE: BCE) is Canada's largest telecommunications company. It supplies Canadian consumers with home phone, Internet, television, and wireless service, and has a large media presence, owning numerous popular Canadian media brands such as CTV.

BCE currently has a dividend yield of 5.08%, and this yield is sustainable. BCE aims to keep its payout ratio between 65% and 75% of free cash flow. This is perhaps the best measure of yield sustainability, as free cash flow, which BCE has plenty of, is a true measure of how much cash a company has left over after operations and capital expenditures are paid for.

At the end of 2013, BCE had a payout ratio equal to 64% of free cash flow, and for the trailing 12 months, BCE had a payout ratio equal to 29% of operating cash flow, and 90% of net income. Together, these point to a sustainable yield. With the dividend growing 69% since the fourth quarter of 2008, BCE is also a strong dividend grower.

3. **Potash Corp./Saskatchewan**

Fertilizer producer **Potash Corp./Saskatchewan** (TSX: POT)(NYSE: POT) has a high, sustainable dividend yield. It owns six potash mines in Canada and is the world largest fertilizer company by capacity.

Potash Corp. currently has a dividend yield of 3.92%, and a payout ratio of 86% based on both net income and free cash flow. It has ample free cash flow ($902 million for the first two quarters of this year), and the fact that the 86% payout ratio is consistent across both net income and free cash flow is a good sign that Potash Corp. can fund its dividend purely out of its excess cash, with room to spare.

In addition to the sustainable yield, Potash Corp. has had a solid history of dividend growth, increasing annually since 2011 from $0.24 annualized in 2011 to $1.40 annualized today. With fertilizer prices likely bottomed out and set to rise after a period of weakness, as well as solid growing cash flows, Potash Corp. should have no difficulty maintaining its dividend.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

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