The 5 Best Dividends of the S&P/TSX Top 60

Description

Using yield alone to find the best dividend investments could result in putting your money into a company that is headed down a dangerous path.

Many large dividends are unsustainable. Some companies even acquire debt to fund their dividends, and while some companies can successfully use debt to fund dividends for years, it can be risky to invest in companies in this position.

When a company goes into debt to pay a dividend, the company is effectively losing money through the interest it has to pay on the debt used to fund dividends in exchange for, hopefully, attracting investors. Many of the high-yielding companies out there are in this situation.

What is a sustainable dividend?

Many factors need to be analyzed to determine the sustainability of a dividend, but one metric analysts often use is the payout ratio.

The payout ratio shows the proportion of earnings paid out as dividends to shareholders. A lower payout ratio is generally preferable to a higher payout ratio, and a ratio greater than 100 indicates the company's dividend payments exceed its earnings per share.

The top five

In determining five best dividend payers of the S&P/TSX Top 60, I looked for high-yield dividend payers with a payout ratio at or below 100.

The five companies are **ARC Resources Ltd.** (TSX:ARX), **BCE Inc.** (TSX:BCE)(NYSE:BCE), **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM), **Rogers Communications Inc.** (TSX:RCI.B)(TSX:RCI), and **Potash Corp./Saskatchewan** (TSX:POT)(NYSE:POT). They are ranked from highest to lowest payout ratio below.

1. ARC Resources

Annual dividend yield: 5.04%

Payout ratio: 100

Although 5.04% is an impressive annual dividend yield, it lags behind many of ARC Resources's competitors in the energy sector. The positive thing about ARC, however, is that its payout ratio is substantially lower. At 100, ARC Resources's payout ratio is right on the line of what is widely considered to be a sustainable payout ratio.

2.BCE

Annual dividend yield: 4.72

Payout ratio: 87

The communications company has a diverse suite of services and has a good track record of growing through successful acquisitions. These factors have given the company the cash flow to pay healthy dividends without utilizing debt. With a payout ratio of 87, the company has a little bit of wiggle room before crossing the 100 threshold.

3. Potash Corp./Saskatchewan

Annual dividend yield: 4.39

Payout ratio: 77

Potash Corp. has been aggressively hiking its dividend, and for that reason, the payout ratio has recently crept higher. That being said, with the company's finances expected to improve along with potash prices, there is no reason to expect dividend payments to go anywhere anytime soon.

4**. CIBC**

Annual dividend yield: 4.52

Payout ratio: 44

The Canadian bank pays a very healthy dividend with a really low payout ratio. The recent crash in oil prices has many investors worried over the health of the Canadian economy, and therefore, its banks. Fortunately, the company's most recent results, for Q1 2015, were stronger than expected. Even if a slowdown hits the banks, CIBC will have to see a very dramatic decrease in cash flow to be at any risk of its payout ratio crossing above the sustainability threshold.

5. Rogers Communications

Annual dividend yield: 4.40

Payout ratio: 58

Rogers Communications is having a rough year compared to its competitors. The recent finances have been a bit weak for the company, but because telecommunications is a fairly stable industry, added to the fact that Rogers has recently made some solid investments, its long-term outlook is good.

*Payout ratio calculated using FY 2014 data

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. NYSE:RCI (Rogers Communications Inc.)
4. TSX:ARX (ARC Resources Ltd.)
5. TSX:BCE (BCE Inc.)
6. TSX:CM (Canadian Imperial Bank of Commerce)
7. TSX:RCI.B (Rogers Communications Inc.)

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Date
2025/08/22
Date Created
2015/03/10
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