



Benefit From the Strong U.S. Dollar and Diversify Away From Canada

Description

Dividend stocks are great for long-term investors who don't want to time the market, but simply want to be part owners in high-quality stocks and get their share of profits from dividends.

The following stocks have a history of paying dividends. The Canadian bank discussed operates in the U.S., so it and its shareholders benefit from the strong U.S. dollar. The infrastructure company discussed pays out distributions in U.S. dollars, so unitholders receive a bigger paycheck while the U.S. dollar remains strong.

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) has a strong presence in the U.S., with over 2,400 retail locations there. Last year, it made 21% of its adjusted earnings from its U.S. retail business, and made 65% from its Canadian retail business. Toronto-Dominion Bank has over eight million customers in the U.S., and roughly 15 million customers in Canada.

Dividends come from earnings, so it's important earnings grow for the dividend to grow healthily. From 2010 to 2014, Toronto-Dominion Bank's earnings per share increased at a compound annual growth rate of 9.8%. The bank targets to increase it by 7-10% in the medium term.

Assuming the bank maintains the same payout ratio, shareholders can expect dividends to grow in that range as well. Going forward, the bank targets a payout ratio of 40-50%.

Today, Toronto-Dominion Bank is priced at \$53.5 per share with a yield of 3.8%. The bank has normally traded at a multiple of 12.5, implying shares are fair around \$57. So, the shares have a small margin of safety of 6-7%. Patient investors can wait for a 4% yield before buying.

Brookfield Infrastructure Partners L.P. ([TSX:BIP.UN](#))([NYSE:BIP](#)) has a formidable portfolio of long-life assets located across the globe.

For example, it owns 10,800 km of transmission lines and 2.4 million electricity and gas connections. It also owns 30 ports, 3,300 km of toll roads, and 9,900 km of rail operations. Brookfield Infrastructure Partners L.P.'s assets can be found in North and South America, Europe, and Australia. These quality assets bring in stable cash flows that lead to stable distributions and income for unitholders.

Its distribution is safe because its cash flow is of superb quality. About 90% of its cash flow is regulated or contracted, and roughly 70% is indexed to inflation. A payout ratio of 67% adds to the safety of its distribution.

Brookfield Infrastructure Partners L.P. yields 5.4% based on an exchange rate of US\$1 to CAD\$1.30. It pays out a quarterly distribution of US\$0.53 per unit and targets to grow it 5-9% per year in the long term. Its next distribution hike, based on its regular pattern, is anticipated for the end of February 2016.

Currently, Brookfield Infrastructure Partners L.P. is priced at \$51 per unit, and is fairly valued. So, around this price, Foolish investors can consider its shares. Remember to buy it in an RRSP because its distribution aren't entirely eligible dividends and could contain foreign income.

For example, 0.8% of the distribution paid out in August was in U.S. dollars, which would have 15% withholding tax on it in a TFSA or non-registered account. So, it's best to buy it in an RRSP, where there's no withholding tax on U.S. dividends.

In conclusion

Investors buying these stocks today benefit from the strong dollar. Toronto-Dominion Bank has a retail business in the United States and earns U.S. dollars there. Brookfield Infrastructure Partners L.P. pays out distributions in U.S. dollars, so unitholders benefit by receiving a fatter dividend as the U.S. dollar remains strong.

Toronto-Dominion Bank pays out eligible dividends that are favourably taxed in a non-registered account, but if you have room in a TFSA, you can put it in there to avoid any taxation on the income and future gains.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:TD (The Toronto-Dominion Bank)

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