Should You Buy These Dividend Stocks for Monthly Income?

Description

Investors like monthly dividend payers because it's easier to plan a monthly budget with monthly income. Usually, a dividend that has been raised is safer than one that hasn't. **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) and **Inter Pipeline Ltd.** (TSX:IPL) are monthly dividend payers that hiked their dividends in 2015. Should you buy them for monthly income?

Shaw Communications

Shaw is a diversified communications and media company that offers Internet, digital phone, and video products and services. It has 3.2 million customers, but its primary customer base is in western Canada.

Shaw also provides Canadians with programming content through one of Canada's largest conventional television networks, Global Television, and 19 specialty networks including Food Network Canada, History, and Showcase.

Shaw's share price has fallen 23% from its 52-week high of $31 to $24. Part of the fall is due to its recent announcement that it is buying Wind Mobile. Shareholders didn't like the news and shares have fallen 11% after the announcement in mid-December.

Shaw has been a committed dividend-growth stock for 12 consecutive years. It last increased the dividend in March by 7.7%. Along with its stable earnings and a sustainable payout ratio of about 66%, its yield of 4.9% is safe.

In the last five years, it increased the dividend on average by 5.5% per year. In the near term I think Shaw is going to increase its dividend at a slower pace because its earnings are expected to grow around 3-4%. Additionally, if the Wind Mobile acquisition is approved, the integration would likely require more investment.

Inter Pipeline

Inter Pipeline transports petroleum, extracts natural gas liquids, and stores bulk liquid. It deals with 1.9 million barrels of energy products each day. It has 91% of its operations in Canada and the rest are in Europe.

Low commodity prices haven't been kind to Inter Pipeline. Furthermore, the stock was probably too expensive in 2014. At one point it traded at $36 and had a price-to-cash flow ratio (P/CFL) of 21. If its cash flow growth were to continue growing at a high rate, the multiple would have made sense. However, the current outlook is that cash flow generation will remain stagnant next year. This is reflected in its shares, which tumbled down to $22 to a P/CFL of 10.

Inter Pipeline has increased dividends for seven consecutive years. It recently hiked its dividend by 6.1% in November. Due to the price decline, it now yields almost 7.1%. Even though Inter Pipeline's payout ratio of about 68% seems sustainable, it has to repay its debt and also continues to invest in its business. However, at least the company's 2016 capital program is lower compared with the spending levels in recent years.

Conclusion

Shaw and Inter Pipeline are both experiencing slower growth for different reasons, so their stock prices have fallen 23% and 39%, respectively. Because of the lower prices, they offer higher yields compared with their historical yields.

If you're looking for monthly dividend stocks with above-average yields, consider Shaw for a 4.9% yield and Inter Pipeline for a 7.1% yield, but don't expect their prices to pop anytime soon.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:SJR.B (Shaw Communications)

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