



Prepare to Buy Your Favourite Dividend Stocks

Description

The big Canadian banks and energy infrastructure companies are some of the highest quality businesses you can buy on the Toronto Stock Exchange. So, you can't go wrong by keeping a watchful eye on quality dividend stocks like them. For example, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) may be some of your favourite dividend stocks. They are mine.

For solid, quality businesses such as Royal Bank, with its S&P credit rating of AA-, and Enbridge, with its rating of BBB+, there's a simple way for investors to determine if they're buys or not.

Choose a yield and price target

When share prices decline or dividends increase, the dividend yields increase. So if Royal Bank's or Enbridge's yields are high compared to their historical yields, then that would indicate their shares are cheap.

Royal Bank of Canada

In the past five years Royal Bank's yield typically oscillated between 3.6% and 4.3%. It seldom reaches a yield of 4.6%. So, any time the yield goes above 4.3%, it could be a buying opportunity.

The bank pays a quarterly dividend of 79 cents per share. That's an annual payout of \$3.16 per share. So, my maximum buy price for Royal Bank is \$73.48 for a 4.3% yield. Currently, it costs \$72.82 per share, which is lower than my maximum buy price, so I could buy at these levels. If your target yield is 4.5%, then you'd only buy at or below the price of \$70.22.

Enbridge Inc.

In the past five years Enbridge's yield typically remained around 3%. Its yield seldom reaches over 4%. In fact, in the past 10 years, it never reached the current yield of 4.6%.

Enbridge has a high yield because its share price has declined 24% in the past 12 months, and it also

just hiked its dividend by 14%. If oil prices remain low, Enbridge's share price won't go anywhere. However, its yield is still covered by its cash flows.

The energy infrastructure business pays a quarterly dividend of 53 cents per share. That's an annual payout of \$2.12 per share. So, my minimum buy price for Enbridge is \$53 for a 4% yield. Currently, it sells at a 13% discount from that price, costing \$46 per share, so I could buy at these levels. If your target yield is 4.5%, then you'd only buy at or below the price of \$47.11.

In summary

Now is a good opportunity to buy Enbridge for its 4.6% yield, which is high compared with its historical yields. On the other hand, Royal Bank would be a better buy with its minimum yield of 4.5%.

Prepare to buy your other favourite dividend stocks by making a list, setting their yield targets, and calculating the prices that you're willing to pay for each. Then seize the opportunities to buy when they arise.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
4. TSX:RY (Royal Bank of Canada)

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