Build an Income Machine With These Dividend Leaders

Description

Is your goal to generate stable income? Consider leaders from industries such as banks, utilities, real estate, and telecoms, which generate stable cash flows and pay steady dividends.

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the leading bank in Canada. It's also one of the 15 largest global banks by market cap. It serves over 16 million clients across 39 countries.

By business segment, 52% of Royal Bank's earnings come from personal and commercial banking, 24% come from capital markets, 11% come from wealth management, 7% come from insurance, and 6% come from investor and treasury services.

Geographically, 75% of Royal Bank's earnings come from Canada, 12% come from the United States, and 13% come from other countries.

Royal Bank has paid a dividend since 1870. With a payout ratio under 50%, its dividend is sustainable with growth potential.

Fortis Inc. (TSX:FTS) is a leading utility with $28.8 billion of assets at the end of 2015. Last year it generated $6.7 billion of revenue by serving two million electric customers and 1.2 million gas customers in Canada, the U.S., and the Caribbean.

Fortis is a good candidate to be a part of an income machine because it has a track record of increasing its dividend for 42 consecutive years, and it also aims to hike its dividend by 6% per year through 2020.

Retail real estate investment trusts (REITs) typically have higher and more stable occupancy than other types of REITs. **RioCan Real Estate Investment Trust** (TSX:REI.UN) is the largest retail REIT in Canada.

At the end 2015 it had almost $16 billion of assets. In 2015 the REIT's funds from operations were 7.6% higher than in 2014. Its 2015 AFFO payout ratio was 90.1%, 3% lower than the year before, making its distribution a bit safer. Its high committed occupancy of 94% at the end of 2015 further improves the safety of its distribution.

BCE Inc. (TSX:BCE)(NYSE:BCE) is the leading telecom in Canada. It generated $21.5 billion of revenue in 2015 from its wireline business (56% of revenue), its wireless business (32%), and its media business (12%). Its wireline business is further divided into broadband and TV (37% of revenue) and wireline voice (19%), and 81% of BCE's revenues are growing from the business segments of wireline broadband and TV, wireless, and media.

BCE has increased its dividend for seven consecutive years. It targets a free cash flow payout ratio of 65-75%. Based on its 2016 free cash flow estimate of $3.1-3.3 billion, its payout ratio for this year will be 70-76%.

Conclusion

As of Friday's closing prices, Royal Bank yields 4.4%, Fortis yields 3.9%, RioCan REIT yields 5.6%, and BCE yields 4.6%. Assuming you invest the same amount in each leader, you'd end up with an average yield of 4.6%. So, if you invest a total of $10,000 in this diversified portfolio, you'd get an income of $460 this year (assuming no dividend growth or cuts).

If your goal is to generate a stable income, these companies are good candidates for consideration. However, if you care about total return as well, you might want to wait for a pullback on Fortis and BCE, which are currently either fully valued or priced at a slight premium.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BCE (BCE Inc.)
4. TSX:FTS (Fortis Inc.)
5. TSX:REI.UN (RioCan Real Estate Investment Trust)
6. TSX:RY (Royal Bank of Canada)

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