3 Ultra-Safe Dividend Stocks for Retirees

Description

In his annual letter to shareholders, **Fairfax Financial Holdings Ltd.** chairman and CEO Prem Watsa lamented that a friend's grandmother had an 85% weighting towards equities, despite being 90 years old. She owns so many stocks because, with interest rates this low, there is no other way to get decent investment income.

Mr. Watsa thinks this is lunacy, and he may have a point. Dividends can give people a false sense of security, and 90-year-olds usually should have very safe portfolios. But this brings up a very important question: Are there dividends out there that are safe enough to substitute for bonds?

We look at three candidates below.

1. Fortis

Utility operator **Fortis Inc.** (TSX:FTS) has raised its dividend every year for over four decades, a streak that is unmatched among Canadian public companies.

There are a couple of reasons why Fortis has been able to pull this off. First of all, the company has been very well managed. But more importantly, Fortis operates in regulated markets, which ensures that competition is limited and pricing is stable. Better yet, we still need to keep the lights on, even when the economy is struggling. This allows Fortis to make very consistent cash flow.

Fortis hopes to increase its dividend by 6% per year to 2020, and given the company's success at integrating acquisitions, this goal should be very achievable. Until then, the stock yields a respectable 3.7%, which is far more than you can get with bonds.

2. Hydro One

Sticking with the utilities, **Hydro One Ltd.** (TSX:H) operates one of the largest electrical transmission networks in North America and is the largest electric transmission provider in Canada. The company operates exclusively in Ontario, serving 96% of the province.

Like Fortis, Hydro One makes practically all of its revenue under a regulated structure, which ensures that cash flow is very smooth. Better yet, the company has a very predictable capital program with plans to spend between $900 million to $1 billion per year on upgrades until 2020. This will lead to a steadily growing rate base.

Hydro One's payout ratio is 70-80%, which means the dividend has some cushion, and the company's A category credit ratings are another sign of stability.

3. Telus

If you're looking for safe dividend stocks, then owning all of the Big Four telecommunications providers is a legitimate strategy. After all, they face limited competition, are protected by high barriers to entry, and benefit from Canadians' growing need for mobile data.

Telus Corporation (TSX:T)(NYSE:TU) is particularly attractive for a few reasons. First of all, the company has by far the highest customer satisfaction scores, which is critical now that Canadians have more freedom to switch providers. Secondly, Telus is more exposed to growth products, such as mobile telecommunications, than its rivals. And finally, Telus has a reasonable payout ratio of 77%, which provides some cushion.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:FTS (Fortis Inc.)
3. TSX:H (Hydro One Limited)
4. TSX:T (TELUS)

Category

1. Dividend Stocks
2. Investing

Date
2025/06/28
Date Created
2016/03/14
Author
bensinclair