Build Your Own Pension With These 3 Monthly Dividend Studs

Description

Two things are causing interest in dividends to skyrocket with no end in sight.

The first is the absence of corporate pensions. A generation ago workers could count on a nice defined-benefit pension plan. Even those not in management could still count on something. These days pensions have largely been replaced with RRSP matches. Sure, they're nice gestures from employers, but most people would prefer a pension.

The second is low interest rates. Even a decade ago investors could put money away in five-year GICs and still earn in excess of 4%. These days, you're lucky if you earn 2%. It takes a pretty big nest egg to be able to live comfortably on 2% returns.

So investors have flocked to dividends, owning stocks with yields sometimes more than 5%. Sure, dividends can be cut at any time, but a portfolio full of dividend payers spreads that risk around nicely.

The only thing left for retirees to do is choose good stocks for their portfolio. Here are three to get you started.

Boston Pizza

Boston Pizza Royalties Income Fund (TSX:BPF.UN) is Canada's largest fast casual dining chain with some 370 locations across Canada and system-wide sales of more than $1 billion.

Same-store sales growth, a key metric of overall health for the restaurant business, has been solid, coming in at 1.8% for 2015 and 2.1% in its most recent quarter. This is despite lacklustre results in Alberta–a key operating area.

The fund is designed to pay out nearly all of its earnings, so investors shouldn't fret about the 101% payout ratio for 2016 thus far. The company has a cash balance to help make up for any shortfalls, and it's likely the next quarter will be busier, which will add to the bottom line.

Besides, Boston Pizza has a history of growing its dividend, not cutting it. Five years ago investors could count on a monthly dividend of 9.2 cents per share. These days the payment is 11.5 cents each month–good enough for a yield of 6.3%.

Extendicare

After getting rid of its U.S. operations, retirement care provider **Extendicare Inc.** (TSX:EXE) is poised to grow both its share price and dividend.

The cash raised from the sale of its U.S. business has already been redeployed into expanding some existing facilities, buying new ones, and making a big acquisition in home health care–a part of the sector poised to really take off going forward.

This has already resulted in better cash flow with more increases likely to come. In its most recent quarter, Extendicare earned $0.22 per share in adjusted funds from operations (AFFO) compared to $0.135 in the same quarter last year. Even after a weak first quarter, Extendicare is on pace to hit $0.70 per share in AFFO for 2016 while paying out $0.48 per share in dividends.

A payout ratio of under 70% is pretty safe, and I think the company can actually increase its 5.5% dividend as earnings continue to increase. And with shares trading at just over 12 times 2016's projected AFFO, it is far cheaper than its peers.

Northview Apartment

Sometimes, a stock will trade at a big discount to its peers for no good reason. **Northview Apartment REIT** (TSX:NVU.UN) is such a stock.

Northview has some 24,000 suites spread across eight provinces and 60 different cities. It has expanded significantly since its roots focusing on northern markets; more than a third of units are located in southern Ontario and 20% are located in the Atlantic provinces.

Since debuting back in 2002, Northview has raised its dividend nine times, yet its payout ratio has declined from over 90% to under 70% of funds from operations. You won't find many stocks yielding 7.9% with a payout ratio so low.

Northview is also cheap from an earnings perspective, trading at just 12 times AFFO. Its direct competitors trade at an average of closer to 20 times AFFO. Look for this gap to close in the future.

Get paid today

A portfolio consisting of equal parts of Boston Pizza, Extendicare, and Northview Apartment REIT would yield just under 6.6%, offer potential for increased dividends, and have some upside potential. It sure beats earning 2% on a GIC, that's for sure.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BPF.UN (Boston Pizza Royalties Income Fund)
2. TSX:EXE (Extendicare Inc.)

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