More Tips to Improve the Safety of Your Dividend Income

Description

It takes time to build a solid portfolio to generate a safe and growing dividend income stream. Benjamin Graham, the father of value investing, believes that a group of 10-30 stocks provides enough diversification. Here are some tips and stocks to help you build a secure income stream from dividends.

Look for companies with high credit ratings

The higher the credit rating of a company, the less likely it is to go bankrupt and the lower its borrowing costs are. These companies can choose to borrow at a reasonable cost to pay dividends as a temporary measure when they face hurdles.

An S&P credit rating of BBB or higher is considered investment grade — the higher, the better. **Fortis Inc.** (TSX:FTS)(NYSE:FTS) has an S&P credit rating of A-, which is at the higher end among the Canadian utilities.

Image not found or type unknown
dividends

Look for companies with sustainable or low payout ratios

Compare a company's payout ratio with its peers'. The payout ratio should be based on earnings or cash flows, depending on the type of company.

Fortis's payout ratio should be based on its earnings per share. For REITs, the payout ratio should be based on funds from operations (FFO), a cash flow metric.

In 2016, **BCE Inc.'s** (TSX:BCE)(NYSE:BCE) dividend per share and earnings per share were $2.73 and $3.49, respectively. So, its payout ratio was 78%; its closest peers had payout ratios of 69% and 64%, respectively. Although BCE offers the highest yield of the three, it'll have less room to grow its dividend.

In 2016, **Canadian Apartment Properties REIT's** (TSX:CAR.UN) distribution per unit and FFO per unit were $1.23 and $1.75, respectively. So, its payout ratio was 76%, which more or less aligns with the payout ratio of stable REITs.

Look for companies with long-term earnings or cash flow growth

Earnings or cash flow growth lowers a company's payout ratio, which improves the safety of its dividend.

Occasionally, companies experience bumps along the way. That's why it's more accurate to look at the long-term profitability of a company.

For example, over a decade, BCE has remained profitable and only experienced lower earnings in one of the 10 years.

Hold a portfolio of dividend-growth stocks

Dividend-growth stocks, which tend to increase their dividends over time, are typically safer than stocks that don't pay dividends or pay them but don't necessarily increase them.

Diversify your portfolio in a group of dividend-growth stocks across multiple industries to improve the safety of your dividend income. Even if one or two stocks cut their dividends, the portfolio as a whole should generate a rising dividend income over time.

Conclusion

A growing dividend supported by a high-credit-rating company with growing earnings or cash flows tends to be safe. By holding a portfolio of such dividend-growth stocks, you can improve the safety of your dividend income.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:FTS (Fortis Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
5. TSX:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/14
Date Created
2017/01/19
Author
kayng