2 Top Picks for Your Dividend Portfolio

Description

If you're on the prowl for a high-quality dividend stock to buy and hold for decades, then you've come to the right place. Let's take a closer look at two with yields of 4-5% that you could buy right now.

BCE Inc.

BCE Inc. (TSX:BCE)(NYSE:BCE) is Canada's largest communications company. It provides a comprehensive and innovative suite of broadband communications and content services to consumer, residential, business, and government customers across the country.

BCE currently pays a quarterly dividend of $0.7175 per share, representing $2.87 per share on an annualized basis, and this gives its stock an impressive 4.9% yield at today's levels.

This is one of the safest 4.9% yields you will find, because BCE has the cash flow to support it. In its fiscal year ended December 31, 2016, its free cash flow totaled $3.23 billion, and its dividend payments totaled just $2.31 billion, resulting in a 71.5% payout ratio, which is in line with its target payout range of 65-75%.

On top of having a very high and very safe yield, BCE is one of the top dividend-growth plays in the market today. It has raised its annual dividend payment each of the last eight years, and its 5.1% hike earlier this month has it on pace for 2017 to mark the ninth consecutive year with an increase.

As mentioned previously, BCE has a target dividend-payout range of 65-75% of its free cash flow, so I think its consistently strong growth, including its 7.6% year-over-year growth to $3.23 billion in 2016 and its projected 3-7% year-over-year growth in 2017, will allow its streak of annual dividend increases to continue for decades.

A and W Revenue Royalties Income Fund

A and W Revenue Royalties Income Fund (TSX:AW.UN), or "The Fund" for short, indirectly owns the trademarks and trade names used by the A&W restaurant brand in Canada. The Fund licenses these properties to A&W Food Services of Canada for use in operating restaurants in exchange for a royalty of 3% of sales at the restaurants in its royalty pool, which currently has 861 restaurants.

The Fund currently pays a monthly distribution of $0.133 per unit, representing $1.596 per unit on an annualized basis, giving its stock a beautiful 4% yield today.

Confirming the safety of The Fund’s distribution is as easy as checking its latest earnings report, because it provides a cash flow metric called “distributable cash.” In its fiscal year ended December 31, 2016, its distributable cash generated per equivalent unit totaled $1.577, and its distributions per unit totaled just $1.558, resulting in a 98.8% payout ratio, which is in line with its target payout of at or below 100%.

Like BCE, A&W has been actively growing its distribution. It has raised its annual distribution each of the last two years, and its two hikes in 2016, including its 4% hike in May and its 2.3% hike in July, have it on pace for 2017 to mark the third consecutive year with an increase.

I think The Fund’s distribution-growth potential is as promising as ever going forward as well. I think its ongoing growth of distributable cash, including its 7.2% year-over-year increase to $1.559 per unit in 2015 and its 1.2% year-over-year increase to $1.577 per unit in 2016, and its growing royalty pool that will help fuel future growth, including its addition of 24 net new restaurants in 2016 and its addition of 23 net new restaurants last month, will allow its streak of annual distribution increases to continue for another five years at least.

Which is the better buy right now?

I think BCE and The Fund both represent very attractive long-term investment opportunities, but if I had to choose just one to buy today, I’d go with BCE, because it has a much higher yield and similar dividend-growth prospects going forward.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:AW.UN (A&W Revenue Royalties Income Fund)
3. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/07/07
Date Created
2017/02/20
Author
jsolitro