Dividend Stocks: 4 Cash Cows Yielding up to 6%

Description

One way of finding good income-producing dividend stocks is to look for companies that are mature and operate in a slow-growth environment.

Businesses that don't need a lot of recurring investments, that command dominant positions in their markets, and that have customers who have no choice but to buy their products fall in this category.

I'm talking about "cash cow" dividend stocks. Income investors "milk" these companies quarter after quarter for a steady stream of income.

These companies produce hefty profits with a little new investment because the initial investment to build high-barrier businesses has already been made, and there is less room in their mature industries for a double-digit growth.

These companies produce a lot of cash, and they distribute cash in hefty dividends, because they don't need too much capital to redeploy for growth.

You don't need to dig too deep to find these companies. They're usually well-known brands that you come across every day, but investing in them isn't fashionable. Some top global names, like **Proctor & Gamble Co., Johnson & Johnson** and **The Coca-Cola Co**., fit nicely in this cash cow analogy.

Here in Canada, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), the largest pipeline operator, is one of them. Enbridge generated $5.03 billion of cash flow from operations last year and returned about 52% of that cash to investors in dividends.

With a dividend yield of 4.7%, Enbridge is targeting a 10-12% annual growth in dividend through 2024, according to the management. Its ability to generate more cash will be improved further as the company starts $48 billion of new projects.

In the energy space, **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) is another cash cow which investors can milk for dividends for a long time.

With $5 billion in operating cash flow, the company returned about 47% of that cash flow to investors through dividends last year. The company plans to grow its dividend by 8-10% per year through 2020, while maintaining a manageable payout ratio.

BCE Inc. (TSX:BCE)(NYSE:BCE) stock is one of my favourite dividend stocks for income investors. Yielding nearly 5%, BCE generates hefty margins due to its dominant position in the Canadian telecom market. Last year, BCE disturbed 84% of its free cash flows to investors in the form of dividends.

Finally, Real Estate Investment Trusts (REITs) are some of the best ways to produce cash for shareholders. In Canada, most of the REITs distribute maximum free cash to their unitholders due to favourable tax treatment.

RioCan Real Estate Investment Trust (TSX:REI.UN) is Canada's largest REIT, paying a monthly distribution of $0.1175 per unit, or a 5.8% annualized yield. In the first quarter of 2017, RioCan generated $0.44 per unit in AFFO and paid $0.35 per unit in distributions.

In short, cash cows make the best dividend stocks. Making them part of your dividend portfolio is a good investing strategy.

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6. TSX:REI.UN (RioCan Real Estate Investment Trust)
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