These 3 Dividend Stocks Offer an Attractive Balance of Yield and Growth Potential

Description

Investing in dividend stocks requires a delicate balance.

That balance involves buying companies that provide an adequate stream income to be received today while making sure that in the chase for yield, your company retains enough of its earnings to maintain the ability to grow the business and the dividend sustainably.

Companies that pay yields they are not able to sustain with current earnings will inevitably be forced to cut or even suspend their distributions — a fate which often leads to disastrous outcomes for shareholders.

The three companies making this list all have dividends that offer attractive yields today, and they have management and boards of directors that have been prudent in allocating shareholder capital, and, in doing so, have established payouts that will allow the companies to reinvest in their future growth for years to come.

Telus Corporation (TSX:T)(NYSE:TU)

Telus operates as one of the major players in the Canadian telecom market with a distinct focus on Canada's western region.

Shares pay a yield of 4.39%, and with a payout ratio of 24%, the dividend is very secure.

While the company has been successful for many years as a regional niche player, it will soon face increased competition from **Corus Entertainment Inc.** (TSE:CJR.B), which, last year, acquired Shaw Media and Wind Mobile in an attempt to compete more effectively in Canada's telecom markets.

However, Telus shareholders should gain comfort from the relative health of its balance sheet, which holds considerably less debt than the newly combined Corus and Shaw entity, not to mention less debt than incumbent peers **Rogers Communications Inc.** and **BCE Inc.**

The strength of the company's balance sheet will prove valuable when the time comes for Telus's competitors to begin retiring their debt obligations, as Telus will concurrently be adding leverage to expand its own business operations.

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Enbridge shares yielded 4.71% headed into Tuesday's trading, which was considerably above the yield the company's shares have historically traded at.

And while the payout ratio sits above 100%, that figure is a bit misleading, as it fails to account for the fact that Enbridge's business is underpinned by revenue that is 95% based off long-term contracts.

The value of those long-term contracts can't be understated, as they provide management with a heightened level of visibility as to where the business will be in three or even five years, allowing management to allocate capital in the most efficient manner possible.

Enbridge shares are also trading at discounts to their historical price-to-earnings and price-to-book ratios, suggesting that the stock offers value at current levels and adding the potential of capital gains to a prospective investment.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD Bank shares pay a yield of 3.41% today, which is the lowest yield of the three companies on this list.

But the company has a payout ratio of 45%, indicating very little risk of any foreseeable dividend cut, and, what's more, the company has consistently generated returns on equity between 13% and 15%, which suggests the company should be able to grow its payout by close to 7% in perpetuity.

With the Bank of Canada beginning on a policy of interest rate hikes, this too should bode well for the bank, as the extra money it charges on loans will more than outweigh increased rates on its deposit book.

The Canadian banks have long been revered for their relative safety within the Toronto Stock Exchange, and TD Bank may very well be the best of the bunch.

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2. NYSE:TD (The Toronto-Dominion Bank)
3. NYSE:TU (TELUS)
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