Danger: Are Investors Paying Up for Stability?

Description

Quality dividend stocks are seldom available at a cheap price. Since the last recession, the market has run up to new heights. With many energy and mining stocks still trading at lows, surely, quality dividend stocks that are viewed as relatively stable options for income must be bid up. Right?

Are these companies trading at levels such that it's dangerous for investors to buy or even hold their shares?

Let's take a look at some of the favourite dividend companies well loved from the income investment community.

BCE Inc. (TSX:BCE)(NYSE:BCE) is one of the Big Three telecoms, which offers broadband wireless, TV, internet and business communication services to customers throughout Canada.

Income investors hold BCE for the stable dividend. In the past three years, BCE increased its earnings per share by about 5% per year and its dividend per share at a rate of about 5.4%. The stock's normal multiple in that period was about 16.

At ~$60.60 per share, BCE trades at a multiple of about 18 and offers a yield of 4.7%. For the next few years, analysts estimate that BCE will grow its earnings per share by ~3% a year, which is roughly in line with the long-term rate of inflation.

The stock has certainly been bid up. Moreover, BCE's payout ratio is getting up there.

This year, its payout ratio is estimated to be about 85%. That said, BCE generates strong, stable cash flow that should keep its dividend safe.

If investors bought BCE at a good valuation, and they are just looking for safe income, they could consider holding on to the stock. However, investors looking to buy should wait for a dip.

Analysts agree there's little margin of safety for the stock. The Street consensus from **Thomson Reuters** has a 12-month target of $61.70 on the stock, which implies ~1.8% upside.

Fortis Inc. (TSX:FTS)(NYSE:FTS) is another well-loved name for stability and income. Its regulated operations make it a top choice for risk-averse investors.

At $47.50 per share, Fortis trades at a multiple of about 19.3 and offers a yield of nearly 3.6%. For the next few years, analysts estimate that the utility will grow its earnings per share by more than 5% a year.

Fortis's payout ratio is estimated to be about 65% this year. So, its dividend is safe. Moreover, management is confident that it can grow Fortis's dividend at an average rate of 6% through 2022.

Investor takeaway

The market's climb to new heights is a good reminder for investors to be careful of the valuation they're paying for stocks, particularly of the quality names that have been bid up. If a stock is too expensive, it's all right to pass it by. BCE and Fortis aren't trading at dangerous levels, but they aren't bargains either.

Investors who own quality dividend stocks already might choose to hold on to the shares for income, especially if they bought the stocks at good valuations and if they care more about the income than price appreciation.

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:FTS (Fortis Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/08/24
Date Created
2017/11/09
Author
kayng