2 Rate-Sensitive Dividend Stocks That Are on Sale

Description

As interest rates begin to rise, some top dividend stocks come under pressure, and pullbacks are not unusual.

Shares of utilities and telecom operators work just like bonds, which provide fixed income to investors without too much volatility. Investors expect similar income stability from these companies, but they seek a premium for taking the extra risk that comes with investing in equities.

So, when bond yields rise, the appeal of these bond-like companies diminishes. Today, I want to highlight why buying **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) makes sense if you see further weakness in their share prices following the expected rate hikes from the Bank of Canada.

Enbridge

Canada's largest pipeline operator is one of the most trusted stocks for income investors, whose objective is to make steady income from dividends.

The stock has been under pressure since the Bank of Canada moved from the sidelines and started raising interest rates last year. Trading at $49.46 at the time of writing, its share price is down ~14% during the past one year, making its dividend yield highly attractive.

With an annual dividend yield of 4.8%, Enbridge pays the quarterly dividend of $0.671. This translates into $2.684 per share on an annualized basis for 2018. Over the past 20 years, the dividend has grown at an average compound annual growth rate of 11.7%.

I think the company's stock price will come under more pressure in the days to come, as investors price in more rate hikes from the central bank and bond yields climb.

Any dip in its stock price should be taken as a buying opportunity. The company has a great portfolio of new projects, which are expected to generate higher cash flows to help Enbridge to maintain its 10% growth in payouts. With its more than six decades of dividend-payment history, Enbridge is a great income stock to hold.

BCE

Just like utility stocks, telecom companies also come under pressure as bond yields rise. BCE, which is Canada's largest operator, has seen its stock underperform during the past 12 months.

The slide in its shares steepened during the past month, as it became clear that the Bank of Canada is likely to hike the borrowing cost again in 2018. After falling ~6% in the past month, BCE dividend yield is now touching a very attractive 5% level, which is hard to ignore, especially from the company which has a solid dividend history.

With the rising borrowing costs, BCE is also facing pressure from smaller telecom players who are competing to snatch some market share. But I think these challenges are short term in nature, and BCE has all the ingredients to bounce back.

Trading at $57.75, BCE pays $2.84 a share annual dividend. Its share price, close to the 52-week low, provides a good opportunity for long-term investors to enter the trade.

The bottom line

Dividend investors should take advantage of a pullback in the share prices of some top dividend-paying companies. Factors such as interest rate increases bring a temporary instability which should be taken as a buying opportunity.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/02
Date Created
2018/01/17
Author
hanwar