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Has the Dividend Strategy Lost its Luster?

Description

What's good about a dividend investing strategy is that for companies that grow their dividends over time, their share prices should rise over time. This is evidenced by the fact that we do not see dividend growth companies with yields of 10%, for example.

That's the general idea, but in reality, dividend growth stocks experience volatility just as other stocks do. In the past year, we saw dividend growth stocks such as **Keyera Corp.** (TSX:KEY) fall about 16% and **Emera Inc.** (TSX:EMA) fall roughly 8% despite the continued growth of their dividends.

What's defensive about a dividend investing strategy is that shareholders will get income no matter what the share price does. Although the price of Keyera and Emera shares have gone down in the last year, their dividend generation capabilities have improved.

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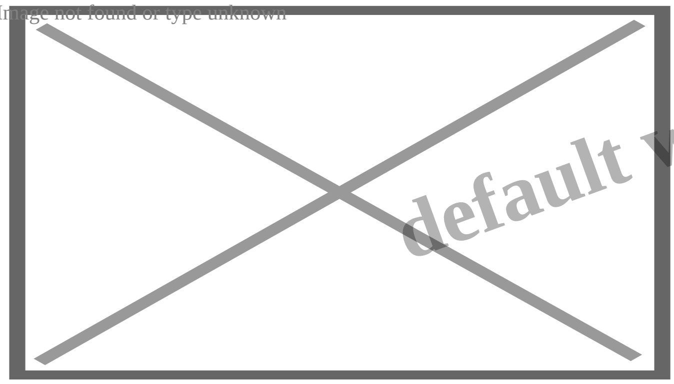

Share price is down, but dividend continues to go up

Keyera's dividend is nearly 5.7% higher than it was a year ago. In fact, it has been increasing its dividend for seven consecutive years, and its three-year dividend growth rate is 9.4%.

Emera's dividend is nearly 8.1% higher than it was a year ago. The regulated utility has been increasing its dividend for 11 consecutive years, and its 10-year dividend growth rate is 9%.

Cheaper share prices: a good buy?

Looking at Keyera's history, its stock tends to get pretty good support at a +5% yield. So, if anything, now is an ideal time to consider buying more Keyera shares, as it now offers a yield of close to 5.2%. Keyera's payout ratio is estimated to be about 66% this year. Thus, its dividend remains sustainable.

The consensus from **Thomson Reuters** has a 12-month target of $42.20 per share on the stock, which represents nearly 30% upside potential, or nearly 35% total returns potential for the near term.

Emera currently offers a yield of 5.4%, and its payout ratio is estimated to be about 82% this year. Thus, its dividend remains sustainable.

The consensus from Reuters has a 12-month target of $50.40 per share on the stock, which represents ~21% upside potential, or nearly 27% total returns potential for the near term.

Investor takeaway

Using a dividend strategy, which looks for safe dividend-growth stocks such as Keyera and Emera to invest in, is still a pretty defensive way to invest. However, on top of safe dividends, investors should also focus on value to ensure they get the best value for their buck while protecting the downside.

Now that both stocks have declined in the last year, they're better entry points for long-term investing. If you own the stocks already, now's not a bad time to consider buying more shares.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)
2. TSX:KEY (Keyera Corp.)

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Date
2025/07/21
Date Created
2018/03/05
Author
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