2 Dividend Stocks That Benefit From Higher Interest Rates

Description

The long-term Canadian government bond yield now sits at about 2.4%. That's still some way off from the safe 3-4% yields that investors can get on the stock market, albeit with a bit more volatility.

I don't think bonds can compete with quality stocks with long-term growth potential just yet. However, if you're concerned about rising interest rates, there are some stocks that benefit from that scenario.

In general, insurance companies, such as **Intact Financial Corporation** (TSX:IFC), and banks, including **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), will benefit.

Intact Financial

Intact Financial is Canada's largest provider of property and casualty insurance. It protects the home, car, or business of one in five Canadians. It's in the leading position with about 17.3% of the market share, while the top five players represent 49% of the market share.

You'll probably recognize at least one of its brands, including Intact Insurance, belairdirect, Brokerlink, and OneBeacon. Intact Financial has outperformed the industry over the long run when looking at performance metrics, such as the premium growth, the combined ratio, and the return on equity. For example, Intact Financial's return on equity is higher than the industry's by five points in both the U.S. and Canada.

Thanks to the company's consistent profitability, it has grown its dividend for 13 consecutive years. Its 10-year dividend-growth rate is 9%. In fact, management just hiked its dividend by almost 9.4% for its first-quarter dividend.

Its payout ratio is estimated to be less than 42% this year. With earnings growth expected to continue, shareholders can expect the company to continue growing its dividend in the future.

At under $99 per share, the stock looks reasonably valued at a multiple of about 17.1. **Thomson Reuters** has a 12-month consensus target of $110 per share on the stock, which represents ~11% upside potential in the near term.

Toronto-Dominion Bank

Toronto-Dominion Bank is Canada's second-largest bank, but it also has a sizable operation in the U.S. Its three business segments are Canadian retail, U.S. retail, and wholesale banking.

In fact, the bank has been doing so well that it just increased its dividend by almost 11.7%. The new dividend starts in the second quarter. At about $75 per share, Toronto-Dominion Bank is reasonably valued with a yield of 3.5%. Reuters has a 12-month consensus target of $82.20 per share on the stock, which represents ~9% upside potential in the near term.

Investor takeaway

If you're looking for safe dividend stocks that benefit from higher interest rates, Intact Financial and Toronto-Dominion Bank are good candidates. For a bigger margin of safety, consider scaling in to the stocks on meaningful dips of 5-10%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:IFC (Intact Financial Corporation)
3. TSX:TD (The Toronto-Dominion Bank)

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