A High-Yielding Dividend Stock for Your Retirement Income

Description

Buying high-yielding stocks is a risky route to build your retirement income. Many high-yielding stocks are dangerous because the market is not sure about the sustainability of those dividends, and investors seeks a huge discount for taking that risk.

But it doesn't mean that we should paint all high-yielding stocks with a same brush. Sometimes a high-quality stock can also come under pressure due to various macroeconomic or cyclical factors. That's the time when bargain hunters should act and buy those undervalued gems.

BCE Inc. (TSX:BCE)(NYSE:BCE) is one such name. It is trading at very attractive level this year and offering a dividend yield which is hard to ignore.

Let's find out why BCE is a good buy today for investors seeking to add a quality name to their retirement income portfolio.

Juicy dividend

Following its 12% decline this year, BCE's annual dividend yield is now close to 6% — a rate of return which is almost two percentage points higher than its five-year average. This weakness in its share price, which is coming from rising bond yields in North America, has a little to do with the company's fundamentals. Higher interest rates are considered bad for utility stocks, as they diminish their investment appeal when compared to the safe-haven securities, such as government bonds.

But this pullback offers a good entry point to long-term investors, who can still make a higher return from the very safe dividend stock. BCE targets a dividend payout ratio between 65% and 75% of free cash flows. This ratio offers a good middle way to grow its dividends, while allowing the company to continue investing appropriately in the future of the business and maintaining the balance sheet liquidity.

Since the financial crisis of 2008, BCE has hiked its dividend by 107%; it's now at $3.02 per share, highlighting BCE's sound financial position. This strength makes BCE as one of the most widely held stocks in Canada.

Economic moat

For long-term income investors, any weakness in dividend stocks that enjoy a competitive advantage presents a good buying opportunity. There is no doubt that BCE is facing some competitive pressure from smaller players, such as **Shaw Communications Inc.**, but Canada's largest telecom operator has deep pockets and a wide moat to defend its turf.

The company has invested tens of billions of dollars in everything from wireless to data lines to media assets. BCE is rapidly expanding Canada's broadband fibre and wireless network infrastructure, with annual capital investments surpassing $4 billion. This size and scale of BCE makes it very tough for new players to destroy the company's enterprise value and snatch away its loyal customers.

Trading at $53.78 and with a potential of regular payout increases, I think BCE stock offers a good bargain for any retirement portfolio.

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