Build Dividend Income While Waiting for Constellation Software Inc. (TSX:CSU) to Pull Back More

Description

Growth stocks are not common on the TSX, but **Constellation Software Inc.** (TSX:CSU) has to be considered one of the best TSX stories in the last five years. It has outperformed the S&P 500 by a large margin. It explains why investors are willing to pay an insanely high multiple to own this software stock. Unlike many companies that crashed during the 2001 tech bubble, Constellation actually makes money quarter after quarter.

I missed my chance to pick up shares in April when the price dropped. The stock then ran up considerably and gave some of that price back with a single-day 2.5% drop this week. I will wait for more of a pullback; meanwhile, hunt for some safe dividend income.

Renewable energy exposure and a huge dividend

TransAlta Renewables Inc. (TSX:RNW) is a company involved in a mixed-bag production of wind, hydro, and fossil fuel energy sources. I covered this stock when I surveyed some TSX green stocks.

Nothing has changed dramatically since I last reviewed TransAlta. Is this a good and bad sign? You decide.

Good signs: The stock has traded sideways for one whole quarter, allowing the price multiples to drop. The stock is also showing positive price momentum, when the price broke the 200-day moving average on June 4 and retested a support level 10 days later. These are good technical signs.

Bad signs: Revenue from wind and hydro, the “renewable” part of the business, which is roughly two-thirds of TransAlta’s energy production, remains flat. Meanwhile, the price-to-sales ratio is very high for a conventional energy stock. I am not sure what an appropriate multiple would be for this hybrid energy company, but I would argue you are paying up for the natural gas part of the business.

Long term, I am lukewarm. As a short-term play, I am relatively bullish. Collecting $0.0783 per share each month is enticing. Hold this stock for a whole year, and you’ll generate over 7% in income.

Favour a sure dividend from an insurance company?

Industrial Alliance Insur. & Fin. Ser. (TSX:IAG) is the fifth-largest insurance company on the TSX by market cap. Like TransAlta, it also employs a hybrid business with wealth management as another side to its business, with $34 billion invested for its clients, primarily in the bond market.

From a technical point of view, I really like IA Financial at these levels, more so than TransAlta. Earlier this year, IA Financial was listed as a top stock pick for the month.

You'll need to hold IA Financial for longer than TransAlta to get the same income, more than twice as long in fact, but the payout ratio is also massively lower at 29%. Parking cash in IA Financial is just a titch riskier than a GIC, in my opinion.

The market has priced in the news that long standing president & CEO is stepping down, with the successor to start in September. There are a few reasons I think this uncertainty will not affect shareholder confidence. The company is trading at book value, it has rebounded with positive free cash flows, and it has above-average 11.5% return on equity for this sector.

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3. TSX:RNW (TransAlta Renewables)

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