A Safe Canadian Dividend Stock to Buy in July

Description

Chasing only high dividend yields is not what I recommend to my readers. This approach to boost your returns is very risky, as high yields often follow a dividend cut, eroding the value of your capital invested.

The most recent example to highlight the pitfall of this strategy is **Corus Entertainment Inc.** (TSX:CJR.B), a stock offering a yield as high as 20% at one point. What followed was not too hard to imagine.

On June 27, Corus slashed its monthly dividend by nearly 80%, as it faced a quarterly loss of $936 million amid intense competition from video-streaming services such as **Netflix.**

I have warned readers many times during the past year to stay away from Corus stock, despite its highly attractive dividend yield. At a time when the media entertainment industry is going through a major transformation, Corus is struggling to revive its viewership. And a dividend cut was almost a forgone conclusion when Corus was failing to generate enough cash flows to pay its debt.

Corus is an extreme example of a company that investors should avoid due to its unsustainable dividend payouts. However, this is not necessarily true for all companies that offer dividend yields that are higher than the market average.

A safe high-yielding stock

If you're on the hunt for a stock that has got a high yield it can sustain, then the Calgary-based, **Inter Pipeline Ltd.** (TSX:IPL) is one such company to consider.

IPL stock yields 6.74%, backed by a solid history of rewarding its investors. In November last year, the company hiked its payout by 3.7% to $1.68 per share annually, marking its 15 consecutive dividend increase.

IPL's high dividend yield is keeping some risk-averse investors on the sidelines, as they believe the company's payout ratio is not sustainable. But I don't think these dividend payments are under threat. The company is increasing its cash flows, which have started to normalize the payouts. In the first quarter, IPL's payout ratio was 74.6%, suggesting the company is generating sufficient cash flows to cover the dividend payments.

IPL is also growing. During the recent oil slump when asset prices declined, IPL strengthened its position in the industry, acquiring Williams Canada for $1.35 billion. It's also building a $3.5 billion petrochemical project in an industrial area north of Edmonton.

The complex will convert propane into polypropylene, a plastic used in the manufacturing of products such as automobile parts, containers, and Canadian bank notes. These growth initiatives have poised the company to produce steady cash flows for its investors in the years to come.

The bottom line

At $25.03 a share, IPL stock is trading close to the 52-week high, and it doesn't look as cheap, as it was a few weeks ago after a 17% jump in its stock price. But despite these gains, I still find IPL's nearly 7% yield quite attractive for long-term investors. This stock is a much safer bet than many other high-yielding names.

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