Retirees: This Could Be the Best Monthly Income Stock on the TSX

Description

Most stocks pay out a dividend (or distribution) every quarter, but there are a select few stocks that write cheques to investors on a monthly basis. These monthly income payers want to cater more effectively to retired investors who are dependent on the payouts from their investments.

While it's true that these retirees can ration quarterly payments into thirds and allocate them for the next three months, it's tempting to go over budget in any given month. For the sake of convenience, many retirees just don't want to be bothered by rationing and budgeting when they should be enjoying their golden years.

With that in mind, it's not a mystery as to why many retirees favour shares that offer monthly income over the traditional a quarterly income stock. I think retired investors overemphasize the importance of the frequency of a dividend (or distribution) payments and don't think it should play a significant role in the decision-making process since it limits the number of stocks to select from.

Simply put, the pool of stocks is far smaller.

I've had the chance to glance over the monthly income names and **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) stands out as the top pick of the batch. It's partly because shares are undervalued relative to forward-looking growth prospects, but mainly because there are promising catalysts that I believe will send the stock soaring above and beyond all other high-yield plays over the next three years and beyond.

When it comes to monthly income stocks, investors seldom think about the potential for stock price appreciation. Most retirees are content with high payouts, but I think that's a mistake, especially when you can receive the best of both worlds without compromising on safety.

Shaw Communications is a growth-savvy telecom stock with a 4.4% dividend yield and the capacity to clock in double-digit dividend growth numbers on an annualized basis.

The yield is by no means large when compared to the broader basket of income stocks, but I believe the potential for dividend growth and capital gains make the stock a far better buy than any other monthly (or even quarterly) dividend stock out there.

The macroeconomic picture looks very bright

Shaw's wireless business, Freedom Mobile, is a massive threat to the collusion agreements of the big three telecoms. The big three wireless providers essentially formed an oligopoly, and through their cartel-like pricing practices, the Canadian consumer is being gouged, especially when it comes to data overages. Canadians pay some of the highest rates in the world, but these days are coming to an end thanks to Freedom Mobile, which is becoming a more significant threat by the day.

I've found that many analysts have downplayed the threat of Freedom Mobile on the big incumbents. And as time goes on, I suspect the threat will only compound. Not only is Freedom Mobile continually improving its infrastructure in target markets, but it's also going to keep its prices lower than that of its peers in spite of any performance improvements.

Add potential regulatory advantages granted by regulators into the equations and you've got yourself a stock that's a long-term winner, whether you're a retiree looking for monthly income or a value-conscious dividend growth investor.

Foolish takeaway

From a top-down view, Shaw looks like a pick that investors should get greedy with today.

In spite of rising interest rates, Shaw is going to have much stronger winds at its back as it looks to capture an equal 25% share of the Canadian wireless market as it poaches subscribers away from the big incumbents, severely disrupting their oligopolistic equilibrium in the process.

The choice is yours, retirees.

You can either bite on another higher yielding monthly income stock or sacrifice a bit of yield today by going with Shaw. In return for a lower upfront yield, you'll likely receive a much higher dividend down the road (the longer you hold, the higher it'll become) and the capacity for profound capital gains that even a dividend growth investor would be happy with.

Stay hungry. Stay Foolish.

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Date
2025/08/26
Date Created
2018/07/09
Author
joefrenette