3 Highest-Yielding Stocks (Dogs of the TSX)

Description

The Dogs of the TSX is Canada's version of the popular Dogs of the Dow investing strategy. The strategy is quite simple. Those employing the strategy invest an equal amount into the 10 highest-yielding stocks on the TSX 60 Index. The TSX 60 is home to the largest companies listed on the TSX.

Over the past 25 years, the strategy has only underperformed the TSX Index six times. It has outperformed 18 times and tied once. Since 1987, the strategy has averaged an annual return, including dividends, of 12.4%. In comparison, the TSX has averaged 9.6% over the same period.

I am always wary of buying in blindly, especially when it comes to high-yielding stocks. At times, a high yield can signify a dividend cut is on the horizon. **AltaGas** and **Corus Entertainment** shareholders know this all too well.

With that in mind, let's take a look at the three highest-yielding stocks from the Dogs of the TSX.

Crescent Point Energy (TSX:CPG)(NYSE:CPG)

Crescent Point tops the list with a yield of 8.96%. Surprisingly, it's not the first time Crescent Point's yield has reached astronomical levels. In late 2015, the company's yield hit almost 20%! That led to a 56% cut to the company's dividend.

It wasn't done. In mid-2016, it cut its dividend by another 70%. It has kept its monthly dividend at $0.03 per share ever since.

Is the pattern repeating itself? It doesn't look that way. The company's payout ratio as a percentage of funds from operations (FFO) has averaged 10% over the first three quarters of 2018.

Inter Pipeline (TSX:IPL)

Next on the list is Inter Pipeline with its 8.89% yield. The company's yield hasn't been this high since 2010. Inter Pipeline's dividend is probably one of the safest on the list, as it has a steady streak of dividend growth.

As a Canadian Dividend Aristocrat, Inter Pipeline has a 10-year dividend-growth streak. It last raised dividends by 1.79% this past November. Inter Pipeline has strong and stable cash flows as 68% of earnings before interest, taxes, depreciation, and amortization are underpinned by cost-of-service and fee-based contracts.

Through the first nine months of 2018, dividends accounted for 59.6% of FFO. The dividend appears safe.

ARC Resources (TSX:ARX)

There is a chance that **Enbridge** will overtake Arc in the top three, but much has been written about Enbridge's dividend. What about ARC? It is currently yielding 7.29% and like Inter Pipeline, its yield hasn't been this high since 2010.

Unlike Inter Pipeline, however, ARC cut its dividend by 50% in 2015. It has since remained steady at $0.05 per month.

In case you didn't notice, all three companies on the list are in the energy sector. ARC and Crescent Point had to cut their dividends in the midst of the oil bear market. Although ARC's payout ratio as a percentage of FFO is only 24%, producers are subject to significant cash flow volatility.

Foolish takeaway

I would approach an investment in ARC and Crescent Point with caution. The price of oil has weakened, and the market is trending downward. On the flip side, Inter Pipeline looks like a much safer dividend play, as its cash flows are not as dependent on the price of commodities. It proved as much by raising dividends, even during the most recent oil bear market.

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