2 Cheap Dividend Stocks Paying up to 15%

Description

Dividends are a key component of stock returns and can be more predictable than price gains. Here are two cheap dividend stocks that are paying yields of up to 15%. However, should you invest in both of them?

Are high-yield stocks too good to be true?

Chemtrade Logistics Income Fund (TSX:CHE.UN) has been offering the same monthly cash distribution, which equates to an annualized payout of $1.20 per share, since 2007.

The stock has fallen about 60% from its 2017 high. That's why its yield has been pushed up to 14.7% as of writing. This indicates the market views the stock as very risky and believes the stock may cut its dividend.

What's wrong with the stock? In November 2018, Chemtrade settled a lawsuit related to alleged anti-competitive conduct of General Chemical entities, which Chemtrade acquired in 2014. As noted in the press release, the settlement "consists of a payment of US$51 million plus assignment of the proceeds, net of defence costs, of the outcome of Chemtrade's dispute with the vendor of General Chemical. A number of related civil proceedings based on the same conduct remain outstanding."

The stock will likely continue to be weighed down until this issue is behind the company. Last year, Chemtrade ended up reporting a net loss of $131.5 million.

At the current juncture, investors are better off considering Chemtrade as a potential turnaround candidate than a safe dividend payer. **Scotiabank** has a one-year target of $12.75 per share on the stock, which represents 56% returns potential assuming the dividend would be eliminated altogether (which is unlikely).

Enjoy an enormous dividend

For a much safer dividend and still an enormous yield of close to 6%, turn to **Enbridge** (TSX:ENB)(NYSE:ENB), which is a global energy infrastructure leader with a diversified portfolio, comprising a large network of liquids pipelines, gas transmission assets, and utilities.

Here's to get a sense of its scale — Enbridge transports about a quarter of North America's crude oil and about 22% of its natural gas.

About 98% of Enbridge's cash flow is regulated or tied to long-term contracts. This allows the Canadian Dividend Aristocrat to generate strong cash flow no matter what prices oil sells at. The proof is that through the last financial crisis and the last oil price collapse, Enbridge's adjusted EBITDA either remained stable or increased.

The basic requirement to be a Canadian Dividend Aristocrat is to have increased dividends in the last five years. Enbridge passes the test with flying colours — it has 23 consecutive years of dividend increases with a 10-year dividend-growth rate of about 15%!

Since Enbridge's cash flow generation is so predictable, the company already stated it'd increase the dividend by 10% next year. So, shareholders can look forward to a forward yield of about 6.5%. After that, Enbridge has the capacity to continue growing the dividend at a stable pace.

Foolish takeaway

While considering dividend as a source of consistent returns, investors should also contemplate a total returns strategy depending on the types of risks they're willing to take.

Although Chemtrade offers an ultra-high yield of close to 15% right now, it's better viewed as a turnaround play for high-risk investors. Enbridge is a much safer stock that offers an attractive yield of 6% and long-term growth potential.

CATEGORY

1. Dividend Stocks
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