Passive-Income Investors: Should You Buy Canada's Hottest 6%-Yielding Dividend Stock?

Description

Utilities and many other defensive dividend stocks have been leading the TSX index higher over this year. Now that rate hikes are becoming less likely, the price of admission to such investments has gone up, and the dividend yields have gone down by a proportional magnitude.

default watermark

While paying a higher price for less yield may seem like a bad idea, it's always prudent to keep your risk in check if you're of the belief that the stock market is a tad too expensive. One of the best-performing defensive dividend plays of the year is **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP), a 6%-yielding renewable energy play that's up over 40% from its December bottom.

Back in December, when everyone was ditching the stock to the curb, I was aggressively pounding the table, urging contrarians to load up on the "generous gift" that the Grinch left for investors during the holiday season, also noting of the massive margin of safety there was to be had.

Over 40% in gains later, it's easy to see that the stock was severely undervalued at the time (hindsight is 20/20), but in the heat of the moment, when panic was the aura in the air, it was tough to see the opportunity, and it was even tougher to find the courage to pull the trigger on the dip.

"Brookfield Renewable Partners has a massive 7.4% yield at the time of writing, and right now, nobody seems to give a hoot!" I said. "The extremely fearful sentiment and the ineffectiveness of dip buying have allowed such names to continue falling like a stone in spite of their sustainable yields and robust underlying businesses that'll likely continue to outperform in harsh economic environments."

Now that sentiment has taken a 180-degree turn, you're getting 1.5% less yield and a higher price of admission, yet the long-term thesis remained relatively unchanged. Brookfield still has a "sought-after" portfolio of renewable assets and a bunch of renewable projects in the pipeline to support future distribution growth, but today, the million-dollar question is if the stock is still a good value.

Although I'm a raging bull on the quality of Brookfield's asset book and management's contrarian value approach to growth, I can't say I'm still as enticed by the valuation after the recent run. The stock certainly isn't expensive at 5.6 times cash flow (vs. the stock's five-year historical average of 6.36 P/CF), but I think most of the easy gains have already been made and that the "huge" margin of safety has since evaporated.

While Brookfield Renewables's expedition into emerging markets (like India) could be a boon for forward-looking growth, I'd much prefer waiting for a short-term pullback which may happen as utility stocks as a whole run out of steam. If you're looking for a 10-year-plus holding though, you shouldn't feel reluctant to get some skin in the game today, as shares look fairly priced and poised to outperform over the extremely long term.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

default watermark

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/22
Date Created
2019/07/16
Author
joefrenette

default watermark