Dividend Investors: 2 Top Stock Picks for 2020

Description

Canadian income investors are inceasingly seeking out top stocks that offer reliable and above-average yield.

What's going on?

Demand has surged for dividend stocks in 2019 amid a drop in bond yields and a plunge in rates offered on GICs. A five-year GIC currently offers a return that barely covers inflation. As a result, solid dividend stocks that provide yields above 4% are back in favour.

Let's take a look at two companies that should be attractive picks heading into 2020.

BCE

BCE (TSX:BCE)(NYSE:BCE) is trading at its 12-month highs, but more upside should be on the way, and investors can pick up a dividend yield of 4.9%.

The company is Canada's largest communications firm with world-class wireless and wireline networks delivering mobile, TV, and internet services across the country.

BCE also has a media company that owns sports teams, a television network, specialty channels, radio stations, and an advertising company. BCE's network of retail stores rounds out the business units.

In short, any time a Canadian makes a phone call, sends a text, checks e-mail, streams a movie, downloads a song, listens to the radio, or watches the news, the odds are pretty good that BCE is involved somewhere along the line.

BCE generates adequate free cash flow to cover the dividend, and investors should see dividend hikes continue at about 5% per year.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) traded as high as $65 per share in 2015. Today, investors can pick up the stock for less than $46 and collect a solid 6.4% dividend yield.

The market fell out of favour with Enbridge as a result of concerns surrounding the balance sheet after the $37 billion takeover of Spectra Energy.

Management has done a good job of addressing the issue, and the market might not be fully appreciating the progress. Enbridge identified $10 billion in non-core assets that could be sold to reduce debt and help fund the ongoing capital program. Buyers have already emerged for about $8 billion.

Enbridge also cleaned up the corporate structure by bringing four subsidiaries under the umbrella of the parent company. This makes it easier to evaluate Enbridge as an investment and keeps more cash inside the firm.

Recently, Enbridge has decided to change the way it charges oil companies to send oil along its large Mainline pipeline system. The new plan would see it issue long-term fixed-volume contracts, instead of the current monthly system.

Investors should see the switch as a benefit. The company can generate more revenue contracted over a much longer timeframe, which makes cash flow and dividend guidance more secure.

Enbridge raised the dividend by 10% in 2019 and is expected to boost it by a similar amount in 2020. Beyond that timeframe, the increases should be in line with anticipated growth in distributable cash flow of at least 5% per year.

The bottom line

Interest rates in Canada and the United States are expected to fall in 2020. That should support ongoing demand for top dividend stocks such as BCE and Enbridge. In addition, the lower borrowing costs can free up more cash for distributions to investors.

If you are searching for reliable high-yield stocks for your income portfolio, BCE and Enbridge deserve to be on your radar.

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