



Top 10 TSX Index Stocks: Which Are the Best Buys in October?

Description

The top 10 holdings in the **iShares S&P/TSX 60 Index ETF** all pay dividends. This didn't come as a surprise, because the ETF tracks the performance of the **S&P/TSX 60 Index**, which consists of a group of well-established large-cap companies.

After going through the top holdings, I identified three stocks that are particularly attractive: **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)), **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)).

These well-valued dividend stocks should boost investors' returns by way of higher dividend yields and greater price appreciation potential.

Enbridge

Enbridge celebrated its 70th birthday this year. 2019 also marks its 24th consecutive year of dividend growth. However, it has actually paid dividends for more than 64 years.

In 10 years, Enbridge nearly quadrupled its payout. If you'd received \$1,000 from the stock 10 years ago, you'd now receive close to \$4,000.

As large as [Enbridge](#) has become — an enterprise value of over \$172 billion — amazingly, it's still growing. Next year, it'll boost its dividend by 10%. Thereafter, it forecasts that it'll still be able to grow distributable cash flow at a stable rate of 5-7% per year.

Conservative income or total returns investors should like Enbridge here. The company had strong coverage of its dividend, even during the last recession and energy price collapse.

Moreover, the stock is undervalued today with a succulent yield of 6.35%. And it has a 12-month price target of about \$54 for 16% near-term upside potential. The dividend is protected by a payout ratio of about 63%.

Bank of Nova Scotia

It's hard to believe that Scotiabank started from a group of Halifax businessmen more than 187 years ago. Fast forward to today, it's the most international bank in Canada and generates about 21% of its earnings from the Pacific Alliance countries, from which it's betting on greater long-term growth.

The story gets better. Scotiabank has paid dividends every year since its foundation. Furthermore, its safe practice and earnings growth has led to dividend increases for most of the last 45 years.

In 10 years, BNS stock increased its payout by 78%. So, if you'd received \$1,000 from the stock 10 years ago, you'd now receive \$1,780.

Conservative income or total returns investors should like Scotiabank at the current price point. The bank's payout ratio is about 50%, which gives protection for the dividend.

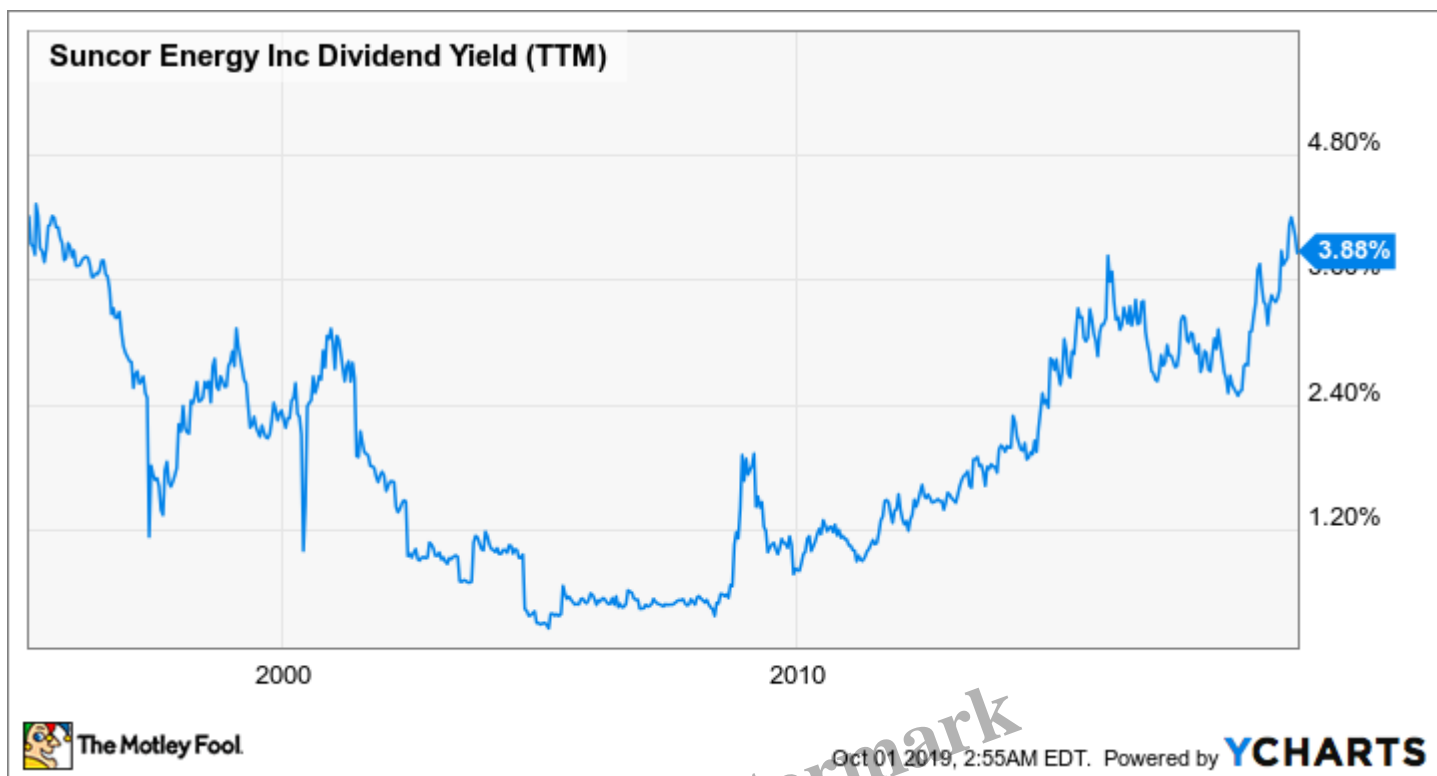
The stock is a good value today with a nice yield of 4.8%. Over the next few years, its dividend-growth rate should roughly match its earnings growth rate of about 5%.

Suncor Energy

For those of you looking for more spice (i.e., a wilder ride) in your portfolio, you can consider [Suncor](#). Energy companies in general have a bad reputation after energy prices collapsed in 2014; as a result of the collapse, many oil and gas companies slashed their dividends.

However, Suncor isn't one of them. In fact, the company has increased its dividend for 16 consecutive years. Interestingly, out of the three companies, Suncor had the best dividend increases in the last 10 years — its dividend is 5.6 times what it was 10 years ago. So, if you received \$1,000 from the stock 10 years ago, you'd receive \$5,600 now.

The tricky thing is to buy Suncor when it's low, since energy prices have greater influence over its stock price versus the other two companies.



SU Dividend Yield (TTM) data by YCharts. Suncor's dividend yield history.

SU stock is undervalued today with a good yield of 4% and has a 12-month price target of about \$53 for 26% near-term upside potential.

It generates billions of annual free cash flow with strong coverage for its dividend. Its trailing 12-month payout ratio is less than 32% of free cash flow. This gives lots of optionality for the company to make acquisitions, buy back shares, increase dividends, or invest in new projects.

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1. Bank Stocks
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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:BNS (Bank Of Nova Scotia)
5. TSX:ENB (Enbridge Inc.)

6. TSX:SU (Suncor Energy Inc.)

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