3 Top Dividend Stocks to Buy in October

Description

Fall is in full swing, and the stock market is abuzz with traders testing their strategies. Concerns about economic and political dynamics have been dominating discussions, but other indicators have given continued legs to bullish sentiment. The **S&P 500** index has risen roughly 16.5% on the year, but dipped roughly 2% over the last few months.

With 2019's final quarter kicking off on a somewhat volatile note, it's a good time to focus on companies that are already delivering consistent profits and returning cash to shareholders. Thankfully, that still leaves plenty of flexibility, and it doesn't have to mean completely giving up on growth. **Xilinx** (NASDAQ: XLNX), **Johnson & Johnson** (NYSE: JNJ), and **Hanesbrands** (NYSE: HBI) operate in three very different sectors and have different risk, dividend, and growth profiles. But each looks like a worthwhile portfolio addition for investors pursuing diversified income strategies this month.

Xilinx

With a yield of roughly 1.6%, Xilinx might not have much appeal for investors prioritizing big dividend payments in the near term. On the other hand, the semiconductor specialist has increased its payout each year since it began a regular quarterly dividend in 2004, and it looks like an appealing dividend growth play that could benefit from trends in cloud and artificial intelligence (AI) to deliver big returns.

Xilinx built its position in the semiconductor space around chips it pioneered known as field programmable gate arrays. These programmable chips allow engineers to alter their functions. They have seen increasing adoption by telecom and networking companies as prices have come down, performance has improved, and increasingly complex communications technologies have required a greater degree of flexibility. Rising demand for the company's solutions is likely to continue despite some near-term, macro-related setbacks.

The semiconductor market has seen volatility tied to unstable trade relations between the U.S. and China, with tariffs tamping down device sales and causing companies to reassess growth plans. The U.S. move to ban companies from dealing with Huawei is having immediate sales and earningsimpacts for many tech companies, resulting in more cautious outlooks.

These dynamics could continue to weigh on the space, and Xilinx in particular, for longer than some investors will be comfortable with. But the business has established leadership in its corner of the semiconductor market, and promising expansion into new AI-focused chip platforms could prove very lucrative.

Xilinx shares have slid 30% over the last six months, and now trade at roughly 24 times this year's expected earnings. That might appear pricey at first, but the company looks like a worthwhile play for investors willing to take on risk in pursuit of payout growth and a long runway for capital appreciation. The chipmaker is poised to see long-term business tailwinds thanks to the rollout of 5G networks and the development and integration of AI technologies, and it stands out as an appealing dividend-growth candidate despite the trade challenges facing the broader chip space.

Johnson & Johnson

Johnson & Johnson is the textbook definition of a blue chip stock, and it's trading at levels that leave room for long-term upside. Shares are priced at roughly 15 times this year's earnings, its dividend yield sits at roughly 2.9%, and the healthcare giant continues to look like a worthwhile defensive stock despite uncertainty stemming from a gamut of legal challenges.

The defining narrative surrounding the company hasn't had much to do with fundamentals: J&J is facing thousands of lawsuits, and the cloud isn't going away overnight. Suits alleging that J&J's talcum-based powders were contaminated with asbestos or included fibrous talc that resulted in illnesses including ovarian cancer and mesothelioma have dominated the company's news cycles.

Judgments against J&J in the talc cases have already totaled above $5 billion, thousands of other cases remain undecided, and it has pending litigation regarding other products. A Philadelphia court recently entered an $8 billion judgment against the company in a suit alleging that it failed to adequately warn that users of its drug Risperdal were at increased risk of developing gynecomastia. As with the talc judgments and a $527 million award in favor of the State of Oklahoma in a suit alleging that J&J misrepresented the benefits and risks of opioid-based products, the company is appealing the Risperdal ruling.

With its diversified strength in pharmaceuticals, medical devices, and consumer products, it should withstand and emerge from the current round of legal challenges, and it has big cash flow and safe payout ratios to keep substantial dividends coming in the meantime. J&J's move to raise its quarterly dividend 5.6% to $0.95 per share in April marked its 57th consecutive year of annual dividend growth, and investors can feel assured that the company will continue to hike its payout each year.

Healthcare is relatively recession-proof, and over the long term, Johnson & Johnson will benefit from trends including an aging population in its domestic market and growth in international markets. Initiatives like AI integration in pharmaceuticals and moves into surgical robotics and augmented reality in medical devices are part of the company's push to create new treatments and services, so there's a good chance it can continue to be a healthcare leader. The legal issues will be on the table for a while, but J&J still looks worthwhile for income investors.

Hanesbrands

Hanesbrands has slumped roughly 15% over the last year as sluggish performance for the socks and underwear segment and the rise of in-house private-label brands at large retailers like **Target** have weighed on its outlook. Shares trade at less than 8.5 times this year's expected earnings, and yield roughly 4.1%. And while the business continues to have a relatively meager earnings growth outlook in the near term, the stock's weak performance has it trading at attractive levels.

The company expects its adjusted earnings to grow just over 2% this year, but cash flow momentum is more encouraging, and the business has the opportunity to shift into delivering better per-share earnings growth as it implements additional cost-savings and drives expansion for high-performing products like its Champion clothing line. It expects operating cash flow to increase from $643 million last year to $750 million at the midpoint of its target for this year. For fiscal 2020, management expects to hit $900 million in operating cash flow — or $1 billion with additional acquisitions.

Hanesbrands has reasonable payout ratios, with the cost of covering its dividend coming in at roughly 40% of its trailing free cash flow. But investors should approach the stock without the expectation of a payout increase in the next couple of years. The dividend has been flat since 2017, and management has indicated that cash flow will be going toward paying down debt and share buybacks before the payout gets a hike. Nonetheless, it already offers a strong yield, and the stock has substantial rebound potential trading at such low multiples.

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1. Investing
2. Tech Stocks

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1. Syndicated

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1. NYSE:HBI (Hanesbrands Inc.)
2. NYSE:JNJ (Johnson & Johnson)

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