TFSA Investors: This 9.6% Yield Could Be the Best Dividend Stock on the TSX

Description

Securing a high-yielding dividend stock can be very risky. Since the yield is high, there's always going to be a chance that there is a trim to the payout in order to bring the percentage down and to make it in line with other dividends stocks. A stock like **Royal Bank of Canada** (TSX:RY)(NYSE:RY), for instance, yields 3.9% per year and is a very good payout for a top bank stock that's not going to be a risky investment over the long term and that's also likely going to continue to produce strong returns.

The dividend stock provides a lot of stability, has good cash flow and earnings, and is generally a fairly predictable investment. Once you go looking for more aggressive yields, things can become a bit riskier, and often, a whole lot faster, too. However, there's one dividend stock that could prove to be one of the better buys out there, and that's **Boston Pizza Royalties Income Fund** (TSX:BPF.UN). Paying investors a monthly dividend of $0.115, the stock is yielding 9.6% per year.

At first glance, investors would definitely be right to be a bit squeamish seeing a dividend that high. However, in its most recent quarterly earnings, the company's payout ratio was 96.2%, based on distributable cash, which is less than a couple percentage points higher than the 94.7% it came in at a year ago. The company noted in its press release that "it is expected that the fund will maintain a payout ratio close to 100% over time as the trustees of the fund continue to distribute all available cash in order to maximize returns to unitholders."

There is no cause for concern from management, despite same restaurant sales (SRS), a key metric for the fund, being a negative 4.2% during the quarter. SRS is an area that management is looking to try and improve, but the positive is that overall sales for the fund were down a more modest 2.3% overall, as new locations helped to offset some of the declines in SRS. While the results may be a bit concerning, and it's not surprising that the stock saw a bit of a sell-off after its earnings release, the Boston Pizza brand is still a very strong one across the country, and there's a good chance that SRS could bounce back in future quarters.

Over the past couple of years, the stock has fallen by 35%, and that's been a key part of its yield becoming so high.

Bottom line

Royal Bank is a good example of a dividend stock suitable for a risk-averse investor who just wants to buy and forget while collecting a very stable dividend. While there’s definitely room for some capital appreciation to be earned along the way, investors should expect a slow-and-steady ride, as Royal Bank shares have increased a modest 7% over the past two years. Generally, investors can often expect it to trade around the 12 to 13 times earnings that it’s trading at today as it can provide a lot of predictability and be as close to a risk-free investment on the market as you can find.

However, for investors that are willing to take on some risk, Boston Pizza Royalties might be the best dividend stock to take a chance on today. With the yield still looking safe for the near term, there’s the potential for some good returns to be earned from owning the stock.

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