TFSA Investors: This 5.9% Yielder Pays Cash Every Month

Description

Who couldn't use a little extra cash flow, especially on a tax-free basis inside a Tax-Free Savings Account?

The issue isn't the desire, but the execution. Finding stocks that pay a combination of succulent yields with above-average dividend security isn't easy. Many companies that pay big dividends come with red flags, question marks that surround the stability of the dividend. And lower-yielding securities don't offer the same kind of passive income as their higher-yielding brethren.

The good news is there are a few select stocks in that in-between zone, the kinds of companies that offer a nice payout, reasonable dividend security, and even the potential for capital gains.

I'd like to profile one such stock today, a company that offers a nearly 6% payout with ample growth potential. Let's take a closer look.

A top TFSA pick

Chorus Aviation (TSX:CHR) is split into two parts. The first offers predictable cash flows and solid growth potential, while the other is much more exciting.

Let's start with the regional airline division, which operates short-haul flights for **Air Canada**. Although the world is currently experiencing a regional air travel boom, I'm the first to admit the short-to-medium haul airfare market in North America is pretty saturated.

Growth potential is there in expanding into new cities, but most of the low-hanging fruit has already been picked. Still, the main part of the business provides plenty of steady cash flow without some of the issues of actually running an airline.

The exciting part of the company is something relatively new for Chorus. The company realized a few years ago that many airlines didn't want to shell out large sums of capital to grow their fleets. So it came up with a solution; Chorus would lease these planes back to airlines, retaining ownership of the plane when the lease expired. It would be then free to use that plane in its own operations, sell it, or lease it again.

The plane leasing business has experienced some pretty remarkable growth. From 2016 through the second quarter of 2019, Chorus spent more than US$1 billion acquiring 40 different planes to lease back to partners around the world. The third quarter alone saw it acquire an additional 12 aircraft, with commitments for even more in the future.

Including commitments and aircraft it leases to Air Canada, Chorus has approximately $2 billion worth of aircraft leased out to customers. Not bad for a business that was just in the planning stages five years ago. With shares up some 100% over the last five years – including reinvested dividends – it's been a great ride for shareholders, too.

Get paid to wait

Chorus pays one of Canada's top monthly dividends. The current payout is a robust $0.04 per share each and every month, which is good enough for a 5.9% yield.

The company isn't big on raising dividends, last doing so in 2015 when the monthly payout was boosted from $0.0375 to $0.04 per share. But it does offer investors a dependable source of monthly cash flow, perfect for reinvesting into other opportunities or to help create a tax-free passive income stream inside a TFSA.

Through the first nine months of 2019, Chorus paid just under $57 million back to shareholders. It earned $96.5 million during the same period. That gives us a payout ratio of just 59% before adjusting for the company's dividend reinvestment program, which gives shareholders a 4% discount to receive their dividends in the form of more shares.

That's an excellent payout ratio for a dividend that is very close to a 6% yield.

The bottom line

Chorus offers investors steady cash flow from its regional airline business, great growth potential from aircraft leasing, and one of the best dividends out there. What more could long-term TFSA investors ask for?

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