Yield Hogs: These Are Canada's 3 Biggest Dividends

Description

[Hungry for yield?] I screened hundreds of Canadian stocks and picked out three mid- or large-cap stocks with the biggest dividend yields. I chose mid- or large-cap stocks because they have graduated from the riskier small-cap phase.

Vermilion Energy yields 13.8%

Vermilion Energy (TSX:VET)(NYSE:VET) is an international oil and gas producer with operations in North America, Europe, and Australia.

It has a track record of balancing capital spending and returning shareholder value through a generous dividend. Since 2003, Vermilion has maintained production growth while maintaining or increasing its dividend.

This year, like many other oil and gas stocks, Vermilion's stock has experienced a big correction due largely to volatile energy prices. Specifically, the stock is down about 30% year to date, but the company has kept its monthly dividend of $0.23 per share, equating to an annual payout of $2.76, intact.

It now offers a whopping yield of 13.8%! Its trailing 12-month capital spending of $584 million. The company is reducing capital spending by about 23% to roughly $450 million next year while expecting to boost production marginally. This will improve free cash flow meaningfully to protect the dividend.

By investing only $10,000, investors can get $1,380 of dividends a year or $115 per month!

ARC Resources yields 9.2%

ARC Resources (TSX:ARX) is a natural gas-weighted oil and gas producer. Year to date, about 74% of its production was natural gas.

At $6.52 per share as of writing, ARX stock trades at a super cheap multiple — about 3.2 times cash flow. A normal multiple would represent a fair price of more than $15, which represents an opportunity to more than double one's money for patient investors with a long-term investment horizon.

In the meantime, ARX stock offers a whopping yield of 9.2%. The company has outright stated that it expects its cash flow generation for next year will fully fund its sustaining and growth capital spending while maintaining its dividend and a net debt to cash flow ratio of 1.0 to 1.5 times.

Compared to 2019's capital spending of about $700 million, the company is reducing capital spending to about $500 million next year while expecting to boost production levels by 14%.

Additionally, it estimates capital spending of about $400 million per year on average between 2021 and 2023. The reduced investments should improve free cash flow substantially to protect the dividend.

Inter Pipeline yields 7.7%

Inter Pipeline (TSX:IPL) transports, processes, and stores energy. About 83% of its cash flows have long-term contracts, and that portion of the cash flow is therefore relatively stable.

However, 66% of its natural gas liquids (NGLs) cash flow, which contributes about 14% of its consolidated cash flow, is commodity-based.

As a result, even though NGLs processing volumes increased 9% year to date, the funds from operations (FFO) for this segment fell 44% year over year. Additionally, Inter Pipeline's pipeline volumes declined by 5%. Overall, in the period, FFO dropped 20%.

Moreover, Inter Pipeline is investing $3.5 billion in the Heartland Petrochemical project. Unfortunately, this large investment won't be online and start generating cash flow until late 2021. In the meantime, the stock's Q3 payout ratio was pushed up to 87% of FFO, while the year-to-date payout ratio was about 80%.

The recent disappointment in the drop in FFO and the big investment in the Heartland project without immediate returns will likely weigh the stock down in the near term. Meanwhile, the stock offers a juicy yield of 7.7%.

Investor takeaway

Not coincidentally, Canada's biggest dividend stocks are all energy stocks. Investors who are hungry for yield can consider segregating a small portion of their dividend portfolios for these high-yield names, to take advantage of the juicy income they provide while also limiting their risks.

Buying the same amount in each stock results in an average yield of 10.2%!

Stay hungry. Stay Foolish.

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2. TSX:ARX (ARC Resources Ltd.)
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