Dividend Stock Investors: Don’t Miss These Bargains

Description

Dividend stocks are known for their consistent performance. These investments give you regular cash income that you can use for whatever you desire. But these characteristics don’t prevent dividend stocks from going on sale every now and then.

The following picks have yields between 2.1% and 8.1%, but these outsized payouts won’t last for long.

Permanent advantages

Inter Pipeline (TSX:IPL) offers the biggest yield on this list at 8.1%. While that seems large, it’s actually quite sustainable. The proof is in the business model.

As its name suggests, Inter Pipeline operates pipelines throughout Canada. Half of the business earns money by transporting oil sands production. Another 15% is from more conventional pipeline infrastructure. The remaining business consists of revenue sources that are complementary to its pipeline operations, including natural gas processing facilities and bulk liquid storage.

As with most pipeline stocks, Inter Pipeline earns most of its money through fixed-price or cost-of-service contracts. These sources are largely tied to volumes, not commodity pricing, so even if oil prices dip, Inter Pipeline’s revenue remains intact.

Looking at the decade ahead, management has already announced $3.7 billion in capital opportunities, with its Heartland Project entering service shortly, which should add at least $400 million in incremental EBITDA to the books. That should solidify the reliability of the 8.1% yield.

Catch the dip

Rogers Sugar (TSX:RSI) is another high payer, with a yield of 7%. Originally established to distribute the profits of a sugar plantation, the company has expanded into value-adding products like maple syrup to ensure the longevity of the business.

Typically, this stock offered a yield of around 5%. A recent stock price dip from a failed sugar crop has pushed the yield above 7%. Fortunately, a failed crop is a temporary headwind, impacting the financials for only a few quarters. The firm's maple syrup venture should help shoulder the blow.

Long-term investors willing to look beyond quarterly results can snap up a sizable dividend that should be sustained for years to come.

Ride the wave

Fairfax Financial Holdings (TSX:FFH) is an outlier on this list, with a dividend yield of just 2.1%. But note that this has traditionally been the *opposite* of a dividend stock. Since 1985, shares have risen by 17% annually. That multi-decade performance ranks up there with the likes of Warren Buffett and **Berkshire Hathaway**.

Fairfax actually runs a very similar business model to Buffett and Berkshire. Both firms own insurance companies that throw off cash. Like Buffett, Prem Watsa, the founder of Fairfax, is in charge of investing that cash. Underwriting profits and investment gains are the driving forces behind both stocks.

Like Buffett, Watsa invests for the long term. We're talking *decades*, not just years. So, while the stock has done well over long stretches of time, there are periods of underperformance. That's the cost of taking the long view.

Over the last five years, Fairfax stock has been roughly flat, an unsurprising outcome considering value investing has been out of favour for some time. Yet Watsa's long-term record strongly suggests that, over time, the performance will revert higher.

If you're truly a long-term investor, locking in Fairfax's discounted valuation and 2.1% dividend is an offer too good to pass up.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:RSI (Rogers Sugar Inc.)

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Date
2025/07/06
Date Created
2020/02/28
Author
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