TFSA Investors: 3 Dividend Stocks Yielding at Least 7.7%

Description

If you're looking to create a tax-free income stream inside your Tax-Free Savings Account (TFSA), the time to do so is *now*. Many of Canada's top dividend stocks are on sale.

No matter what kind of portfolio you want, there's ample buying opportunity. If you're looking to create a dividend-growth portfolio, there are dozens of **TSX** stocks that yield 3-5% with excellent growth prospects. There's also plenty of potential in the high-yield space.

In fact, some of these stocks have been unfairly beaten-up as investors rush to sell anything they feel to be too risky.

Let's take a closer look at three of Canada's top high-yield stocks — securities that all offer what look to be sustainable payouts of around 8%.

Alaris Royalty

Alaris Royalty Corp (TSX:AD) is a specialty finance company that partners with medium-sized businesses to help them with their financing needs.

The company generally invests in preferred shares that pay upwards of a 15% yield, giving the company the option to exit the deal for a premium at some point down the road. Borrower payments tend to go up over time too, with targets tied to underlying sales performance.

Alaris shares have been crushed lately, including falling some 20% over the last week or so. It recently announced a sale of one of its investments that didn't work out as well as hoped, with the company taking a slight loss on the deal.

Investors are also worried that record low interest rates will make it more difficult for Alaris to maintain its desired return levels.

I view these issues as temporary. If Alaris is forced to take a little lower return because of the interest rate environment, it's not a big deal. And the company still earns enough today to cover its generous dividend, a $0.1375 per share monthly payout that translates into a 9.1% yield.

Besides, Alaris shares tend to overreact to small pieces of bad news. It could easily rally by 20-30% when markets recover or if it puts cash to work at favourable terms.

Morguard REIT

Morguard REIT (TSX:MRT.UN) owns retail, office, and industrial buildings in six Canadian provinces. The portfolio has $2.9 billion worth of assets consisting of 48 total properties and 8.5 million square feet of gross leasable area.

The company is Canada's cheapest REIT on a price-to-book value basis, with shares trading at under 50% of net asset value.

Investors don't like the company's Calgary office space exposure, despite that part of the portfolio holding up pretty well. Morguard's downtown Calgary tenants continue to pay their rent on time and it has no vacancy in those assets.

Morguard is also cheap on a price-to-funds from operations perspective. It generated $1.43 per share in funds from operations in 2019. Shares currently trade hands for under $12 each. That puts the stock at just over 8 times funds from operations, which is really cheap from that perspective, too.

While investors wait for both of these discounts to be resolved in their favor, they can sit back and collect Morguard's well-covered 8% dividend.

Mullen Group

Mullen Group (TSX:MTL) is in the trucking and oilfield services business. It has been busy acquiring various operators over the last couple of decades, consolidating what has traditionally been a fragmented business.

The company's main challenge over the last few years has been dealing with the decline of its oil field services business. As oil collapsed, so too did revenue from that part of the operation. 2019 saw some stabilization there, but investors are concerned that the latest dip in oil prices will impact Mullen's bottom line even further.

In addition, much of Mullen's trucking industry is in Alberta, an economy that continues to struggle.

The good news is the company is poised to generate plenty of free cash flow even if the overall economy remains weak. Analysts project the company will earn around $0.50 per share in 2020, putting shares at around 13 times these somewhat depressed earnings.

Mullen pays a $0.05 per share monthly dividend — a payout that should be in good shape unless we really get a prolonged economic downturn. The current yield is 7.7%.

The bottom line

If you're looking to begin earning tax-free income from your TFSA, then it's time to buy Alaris Royalty, Morguard REIT, and Mullen Group shares. They'll form the basis of a great dividend portfolio for years to come.

CATEGORY

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TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:MRT.UN (Morguard Real Estate Investment Trust)
3. TSX:MTL (Mullen Group Ltd.)

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