Market Crash: Bank on Safe Dividend Stocks

Description

The current market crash we're experiencing is a wake-up call to keep stocks of quality businesses in one's portfolio. These are the stocks that investors can hold through bear markets and good times.

It's even better to hold safe dividend stocks, because investors can get the reassurance from regular dividends.

To build a safe dividend stock portfolio, you've got to carefully select stocks one at a time.

I believe durable businesses that lead their respective industries will survive the challenging macro environment raised by the coronavirus crisis.

After the pandemic comes to pass, as other negative events of the past have, the quality stocks discussed in this article will recover. Meanwhile, investors can enjoy safe dividend income.

They have elevated yields thanks to lower stock prices.

Market crash? Buy safe dividend stock Brookfield Infrastructure

In a market crash, investors want to buy businesses that are well capitalized. **Brookfield Infrastructure** (TSX:BIP.UN)(NYSE:BIP) is one such company. What's more is that investors can now buy the corporation version with the ticker "BIPC" on the TSX or NYSE.

First, BIP has about US$1.9 billion of corporate liquidity. Second, its secured investments are fully funded.

Third, the diversified infrastructure company enjoys an investment-grade credit rating of BBB+. Its corporate interest coverage is about 23 times.

Finally, BIP retains about 35% of cash flow for maintenance and organic growth projects. This means that it aims for a payout ratio of about 65% to protect its cash distribution.

At writing, BIP stock offers a yield of about 5.9%. The company's cash flow generation is diversified across utilities (35% of funds from operations), transport (32%), energy (25%), and data infrastructure (8%).

The pandemic-triggered slower economic activities will impact some of BIP's cash flow. For this reason, the market crash provides a good entry point for long-term investment and allows investors to secure a high yield.

Bear market? Buy safe dividend stock: Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the largest bank in Canada. As a result, its diversified business allows it to better capitalize on opportunities created from dynamic markets.

The bank's earnings are diversified across personal and commercial banking (49% of earnings), capital markets (22%), wealth management (20%), and insurance (6%).

The big Canadian bank's common equity tier one ratio was strong at 12% at the end of fiscal Q1 2020. The quality Canadian bank is one of two wide-moat banks in Canada, according to Morningstar. Additionally, RY stock's return on equity has been high with a five-year average of 17%.

The market crash dragged down RY stock to about $84 per share, which is about 9.2 times earnings. This valuation is the cheapest since the last financial crisis.

Certainly, the near-term economic outlook is grim. However, it gives rise to the opportunity of buying a world-class, diversified bank with an elevated dividend yield of about 5.1%.

RY stock's payout ratio is about 48%. Therefore, it has a big margin of safety to protect its dividends.

The Foolish bottom line

To build a safe dividend stock portfolio, investors need to be picky about the businesses to invest in. These businesses should be well capitalized and have dividends protected by sustainable payout ratios.

I believe Brookfield Infrastructure and Royal Bank of Canada are leaders in their industries that provide safe, juicy yields of 5-6% and long-term price appreciation potential.

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