A Dividend-Growth Stock for Big Monthly TFSA Income

Description

With the Canadian economy under a considerable amount of pressure, we've witnessed many firms slashing their dividends from left, right, and centre. Even some of the bluest blue chips, such as **Suncor Energy**, out there have put their dividends on the chopping block. And as dividend reductions become normalized over the coming months, it'd be wise for investors to revisit the holdings in their portfolio to reduce the impact of broader dividend cuts.

Steering clear of dividend cuts

For investors who rely on their monthly TFSA income to finance the costs of living, an analysis must go further than just the balance sheet. A firm, like Suncor, can have a healthy financial footing and still be at risk of a significant dividend reduction if the insidious coronavirus threatens the magnitude of future operating cash flows.

The coronavirus-induced demand shock sent oil prices to new lows, and that brought forth tremendous uncertainty with regards to Suncor's future cash flows. The bleak future for the oil patch justified management's decision to cut its dividend by 55%, and investors were left holding the bag, as the dividend reduction came alongside a significant amount of capital losses.

While the "yield bar" has been raised in this rocky market, many monthly income investors may find it a better idea to consider a stock with a secure dividend payout that's subject to above-average growth, rather than just reaching for the higher yields. That way, the income investor will reduce the chances of getting their dividend taken away from them at a time when they need it most.

Shaw: A solid, growing dividend at a discount

For those who value dividend security and growth as much as the size of the upfront yield, consider shares of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

The underrated Canadian telecom represents one of those high-quality defensive dividend stocks that you'd want to hold in the face of a severe recession. While the broader markets have mostly recovered, as coronavirus jitters fade, Shaw stock has remained overly depressed (shares of SJR.B are still off around 25% from their 2017 all-time highs), and unfairly so.

In prior pieces, I've touted Shaw's wireless subsidiary Freedom Mobile and its low-cost strategy going into a recession. Just over a week ago, Shaw lowered the price bar again and will be seen as a go-to choice for many belt-tightening Canadians who are going to need every dollar to go that much further.

"What entices me about Shaw over its peers is the fact that it's a low-end, 'inferior' wireless player in Canada, with lower monthly rates through its wireless subsidiary, Freedom Mobile. Freedom's network isn't on par with its bigger brothers, at least not yet. In times like these, where cash is scarce, network quality matters far less than the potential for savings." I wrote in a prior piece, praising Freedom for its low-cost advantage that I didn't think was priced into the stock.

What about valuation?

At the time of writing, Shaw stock still looks considerably undervalued, given the looming recession and what appears to be an opportunity to take share away from the "pricier" incumbents. Shaw stock trades at 17.7 times next year's expected earnings and 2.2 times sales, both of which are considerably lower than the stock's five-year historical average multiples of 19.1 and 2.5, respectively.

The well-covered dividend yields 5.1% and is in a position to grow as we fall into a severe economic downturn. So, if you're looking to batten down the hatches with your TFSA income stream at this most uncertain juncture, it may be wise to consider a robust telecom like Shaw while its dividend yield is slightly higher than where it usually is.

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Author
joefrenette