2 Must-Buy Dividend Stocks in September 2020

Description

If you want incredible price appreciation over the next three years while getting great income, here are two must-buy dividend stocks in September 2020.

A&W Revenue Royalties Income Fund

A&W Revenue Royalties Income Fund (TSX:AW.UN) has 971 A&W restaurants across Canada in its royalty pool. Specifically, it earns royalties of 3% from the gross sales of the restaurants.

In turn, it pays a big portion of that as dividends to unitholders. Investors should note that A&W non-eligible dividends tend to have a higher tax rate than eligible Canadian dividends that most investors are used to. Therefore, holding the shares in an TFSA, RRSP, RESP, or RDSP may be more suitable.

Some of the A&W locations were closed due to COVID-19 impacts. At the peak, almost 24% of the restaurants were forced to be closed! Thankfully, near the end of July, only 2% of all locations were temporarily closed.

Therefore, A&W royalties were the hardest hit in Q2, and the fund was forced to suspend cash distributions for three months from April to June.

As soon as A&W's royalty levels were on their way to recovery by Q3, it started paying dividends again. Currently, the monthly cash distribution is $0.10 per unit (or an annualized payout of $1.20), which equates to a decent yield of 4.2%.

Going forward, its cash flow (and dividends) will rely on government restrictions as needed to prevent the spread of the virus. However, a reversion to the mean over the next few years would translate to upside of more than 36% and a yield on cost of 6.8% based on the recent quotation of $28.25 per unit.

H&R REIT

H&R REIT (TSX:HR.UN) is another company, which had massive impacts from the pandemic and saw a meaningful cut in its cash flow. This resulted in the diversified REIT prudently halving its dividend in May. Its current cash distribution translates to an annualized payout of $0.69 per unit and a dividend yield of almost 6.6%.

H&R REIT's rent collection last month was 87%, helped by strong collections of 99%, 90%, and 97%, respectively, from its office, residential, and industrial portfolios. They contribute to roughly 44%, 16%, and 6% of its rents.

The REIT's retail assets were the most impacted by the pandemic. Last month, it collected 71% of the rent in its retail portfolio, which contributes to a third of its rent.

Its cash flow (and dividends) will be dependent on the development of the virus situation. Upside of more than 90% and a yield on cost of about 13%, based on the recent quotation of $10.53 per unit, is possible on a reversion to the mean over the next few years.

The Foolish takeaway

September 2020 is a good time to pick up must-buy dividend stocks A&W Revenue Royalties Income Fund and H&R REIT. If you buy equal dollar amounts in the value stocks, you'll get an average yield of 5.4% that's paid as monthly income.

In a few years, there's a good chance that the yield on cost will jump to 9.9% on a normalization of the businesses. Coupled with higher income is average price appreciation of more than 63%.

For example, an investment of $10,000 ($5,000 in each) will generate annual income of $540 now. In a few years, the $10,000 could turn into $16,300 and generate income of $990!

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. TSX:AW.UN (A&W Revenue Royalties Income Fund)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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