Income Investors: 2 TSX Stocks That Provide Monthly Dividends

Description

Dividend investing remains the preferred choice for many Canadians. One factor that makes dividend stocks attractive is their ability to generate stable recurring income and the potential for capital appreciation in the long term.

Another reason to buy dividend stocks right now is the market volatility and sell-off has resulted in better-than-normal yields. As a company's stock price is inversely related to its dividend yield, a market sell-off provides an opportunity for investors to buy beaten-down stocks at lower valuations.

Dividend stocks that have maintained payouts amid the COVID-19 pandemic provide a semblance of certainty to investors. We'll look at two such stocks on the TSX that pay investors monthly dividends.

North West Company has a forward yield of 4.1%

The first stock on my list is **North West Company** (TSX:NWC), a multinational grocery and retail company. The Winnipeg-based company is trading at its record high of $35.1, which is 120% above its 52-week low.

Despite the recent surge, North West stock has a forward yield of 4.1%. It's trading at a price-to-sales multiple of 0.75 and a price-to-book ratio of 3.7, which is reasonable. The stock has a beta of 0.4, which indicates it is a good buy if the market crashes again.

The company has divested non-core and underperforming assets that have allowed it to increase dividends by 9% recently. North West is a recession-proof stock that is also undervalued and pays an attractive dividend.

North West provides services in a niche market, which means it has little competition. It generates 90% of sales from essential products, making it a must-buy at a time when consumer demand remains tepid.

TransAlta Renewables has a dividend yield of 6%

Another company that is fairly recession-proof and can generate a stable stream of cash flows, making a dividend cut unlikely, is **TransAlta Renewables** (TSX:RNW). The stock is trading at $15.6, which is 50% higher than its 52-week lows, indicating a dividend yield of 6%.

TransAlta has been paying monthly dividends since September 2013 and has increased payouts at an annual rate of 4%. It currently pays a monthly dividend of $0.07833 or $0.90 per share per year.

TransAlta owns a portfolio of 13 hydro facilities, 19 wind farms, and one natural gas plant in Canada. It also has interests in assets located in Australia and the United States. The total electricity-generating capacity of TransAlta stands at 2,555 megawatts.

TransAlta generates energy from these assets and sells them via long-term power-purchase agreements to industrial customers, public power authorities, and load-serving utilities, making its cash flows relatively stable.

In Q2, TransAlta increased its adjusted EBITDA by 3.6% to $115 million while funds from operations rose 12.5% to $90 million. The company generated $71 million from operating activities in Q2, indicating year-over-year growth of 36%. Further, TransAlta's liquidity at the June quarter stood at a healthy $498 million.

While most companies have withdrawn or lowered their guidance due to COVID-19, TransAlta has maintained its 2020 guidance. The company expects EBITDA between $445 million and $475 million this year compared to $438 million in 2019.

Looking at the company's outstanding shares that stand at 266 million, the company's annual dividend payout is approximately $240 million, indicating a low payout ratio, making a dividend cut highly unlikely.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWC (The North West Company Inc.)
2. TSX:RNW (TransAlta Renewables)

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Author
araghunath