Snap Up These 3 High-Yield Stocks at a Bargain

Description

If you are looking for higher yields amid lower interest rate environment, consider buying some quality stocks in the banking and the energy sector. Given the disruption from the COVID-19 pandemic and uncertain economic outlook, shares of the companies operating in the banking and energy sector are available at a bargain. However, their strong fundamentals and high yields make them an attractive investment for a medium- to long-term horizon.

Let's focus on three quality stocks in the banking and the energy sector offering stellar yields.

Enbridge

Shares of the energy infrastructure company **Enbridge** (TSX:ENB)(NYSE:ENB) look inexpensive given the year-to-date decline of over 23%. The lower throughput on its liquids mainline system amid weak demand for crude has taken a toll on its stock.

However, Enbridge's diversified business mix, contractual arrangements, and operational efficiency continue to drive its adjusted EBITDA and distributable cash flows (DCF) and cover its payouts. Further, through its equity self-funding model, it has managed to reduce leverage, which is encouraging.

Amid the worst energy downturn, Enbridge's other businesses, including gas transmission and gas distribution and storage, are witnessing high utilization. Moreover, its focus on reducing overhead costs is positive.

Investors should note that Enbridge has a long history of returning a hefty amount of cash to its shareholders. It has been paying dividends since listing on the TSX in 1953. Further, in 2019, it paid $6 billion in dividends.

Currently, Enbridge offers a high yield of 8.2%, which is safe. Its low-risk cash flows and cost-cutting measures are likely to cover its payouts.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) has one of the longest histories of paying dividends. The bank has consistently paid dividends since 1829, which is commendable. Moreover, its dividend has increased at a CAGR (compound annual growth rate) of 6.4% in the past 15 years.

Bank of Montreal stock is down about 22.5% year to date, reflecting lower interest rates and higher provisions. However, the bank has continued to drive loans and deposits volumes at a modest pace, which is encouraging. Further, Bank of Montreal is well capitalized, and focus on expense management and improving efficiency should support its payouts.

Currently, Bank of Montreal offers a high dividend yield of over 5.4%, which is very safe. Moreover, its low target payout ratio of 40-50% is easily sustainable in the long run.

TC Energy

With its pipelines and power generation assets, **TC Energy** (TSX:TRP)(NYSE:TRP) is another top high-yield stock available at a bargain. Its stock is down over 15% year to date and offers a stellar annual dividend yield of more than 5.5%.

The company's business remains relatively immune to the disruptions from the COVID-19 pandemic, as it reported higher utilization rates for its assets so far this year. TC Energy's high-quality assets and strong expense management drive robust cash flows, which supports its payouts.

Over the year, TC Energy's annual dividends have grown from $0.80 in 2000 to $3.24 in 2020. Moreover, its asset base has expanded from to $100 billion from $25 billion. TC Energy expects about 95% of its adjusted EBITDA to come from rate-regulated assets and businesses with long-term contracts.

Moreover, it predicts 8-10% increase in its dividends for 2021, thanks to the low risk and diversified cash flows. The company further expects a 5-7% growth in its dividends beyond 2021, reflecting benefits from its complementary infrastructure assets and $37 billion of secured growth projects.

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