How to Increase Your Income for 2021 and Beyond

Description

The best five-year GIC rate is 2%. Investors could potentially get slightly higher yields from corporate bonds of quality companies. Still, low interest rates make it impossible for Canadians to get sufficient income from interest alone.

Thankfully, dividend stocks come to the rescue. Here are some quality dividend stocks to help you increase your income for 2021 and beyond. Investing just a portion of your income funds into these stocks can meaningfully boost your income immediately.

Bank stocks

The big Canadian banks are among the most profitable companies in Canada. The pandemic triggered economic disruptions this year. As a result, the banks plummeted during the March market crash. They have since recovered and trade close to pre-pandemic levels.

Among them, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) is still relatively cheap for a high yield. Like the other banks, Scotiabank's earnings are set for a multi-year recovery.

The bank just reported its Q4 results yesterday with adjusted earnings per share (EPS) down 20% year over year. For the full fiscal year, adjusted EPS fell 25% to $5.36, while the return on equity (ROE) was 10.4% versus prior year's 13.9%. So, Q4 results already indicate an improvement. The ROE of +10% was very good given all that has happened — pandemic and low energy prices and all — during the year.

The market liked Scotiabank's Q4 results and bid up BNS stock by 2.85%. At $65 per share at writing, the stock trades at a discount of approximately 20% from its normal valuation.

Notably, it could take two to three years for Bank of Nova Scotia's earnings to normalize. Meanwhile, BNS stock provides a yield of 5.54% for starters, which is quite attractive.

The bank has its eyes set on earnings growth of more than 7% over the medium term as well as ROE of more than 14%. So, things should get better from here if you have an investment horizon of at least three years.

Pipeline stocks

Energy infrastructure stocks, which are sometimes referred to as pipeline stocks, are also battered. **Enbridge** (TSX:ENB)(NYSE:ENB) is the largest in the space in North America.

The stock has been range bound between $34 and $40 since March. Precisely because Enbridge stock remains depressed, it gives the opportunity for income investors to buy shares for an 8% yield.

Enbridge's resilient business is supported by 98% regulated/contracted cash flow with little commodity risk. Essentially, Enbridge's key metrics remained defensive this year, and it's been reaffirming its guidance for 2020 distributable cash flow of $4.50-4.80 per share. This would translate to a sustainable payout ratio of about 70%.

The company has an investor day coming up next week on the 8th, at which time it will reveal its 2021 financial and dividend guidance. So, if you're not yet 100% sure Enbridge stock is an income investment for you, you can wait until then for greater clarity of the company's outlook.

The Foolish takeaway

Both BNS and ENB stocks are good buys for income in 2021 and beyond. If you invest $5,000 in each stock, you'll start by earning passive income of about $675 next year on an average yield of about 6.75%. Any dividend increases would only increase that payout.

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