



Got \$2,000? Buy Into the End-of-Season Dividend Sale Before 2021

Description

The pandemic year is nearing an end, and so are the opportunities and risks it brought. The pandemic paved the way to the tech stock rally, which is now slowing. It also pulled down the prices of some Dividend Aristocrats, as the lockdown severely impacted their businesses. Warren Buffett saw value in some of these dividend stocks and bought them while they are still on sale.

The beginning of the dividend rally

However, the stock market witnessed a twist in November when **Pfizer** announced a positive update on the COVID-19 vaccine. The vaccine news revived investors' hopes that the pandemic will finally end in 2021. Tech stocks saw a correction while energy and real estate stocks rallied.

If you have \$2,000, invest \$1,000 each in **RioCan REIT** ([TSX:REI.UN](#)) and **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) through your Tax-Free Savings Account (TFSA).

RioCan REIT

RioCan is Canada's second-largest retail REIT. It earns money from the rent it collects from its retail tenants. It uses a portion of this rental income to pay out dividends and build and maintain properties. It has reduced its risk by diversifying its tenant base, with no single tenant contributing more than 5% of its revenue. Moreover, most of its properties are in prime locations, because of which they are occupied most of the time. It also collects security deposits from tenants to protect its rental income.

Despite all these risk curtailment measures, RioCan stock fell 46% in the March sell-off to the 2009 level. It reported a net loss in the second quarter, as a nationwide lockdown temporarily shut all non-essential stores. The entire retail industry took a plunge, and RioCan struggled to collect rent. But the REIT recovered to profits in the third quarter thanks to the rent subsidy the government offered small retailers. It is gradually [recovering](#) by adding new tenants at higher rents.

Throughout its journey from decline to rally, RioCan maintained its dividend per share. Hence, when the stock dipped, its dividend yield increased to as high as 10%. Since the vaccine news, the stock has surged 19%, and its dividend yield has reduced to 7.97%. RioCan could take another 12-18 months to

return to the pre-pandemic profit.

Enbridge

North America's largest pipeline operator Enbridge earns money by charging a fee for transmitting oil and natural gas through its pipeline. It uses a portion of its money to pay a dividend and another portion to build and maintain pipelines. The more pipelines it adds, the more cash it generates. Enbridge has been [increasing its dividends](#) every year for the last 25 years, as weakness in oil demand was offset by strength in natural gas and renewable energy.

The pandemic imposed travel restrictions that grounded planes and closed factories. This significantly reduced oil demand to a level where oil companies didn't have space to store inventory. Enbridge's revenue dipped 40% in the second quarter, but its cash flows grew on natural gas strength. As the restrictions ease and oil demand returns, Enbridge's revenue is recovering. It is considering increasing dividends next year if its cash flow surges.

Enbridge stock slumped 35% during the pandemic, and its dividend yield surged above 8.5%. But the stock surged 22% on vaccine news that reduced its yield to 7.83%. Like RioCan, Enbridge could take another 12-18 months to return to the pre-pandemic oil cash flows.

Benefits of buying in a dividend sale

Even though the two dividend stocks rallied last month, they are still trading at a 30-50% discount. There is a lifetime benefit of buying in a dividend sale. A \$2,000 investment in RioCan and Enbridge will earn you more than \$1,100 in two years — \$160 in annual dividends and \$800 in capital appreciation. The dividend income will grow as Enbridge increases its dividend per share. The TFSA will protect your investment income from taxes, making your \$2,000 more worthwhile.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date

2025/08/15

Date Created

2020/12/16

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