2 High-Yield TSX Stocks to Buy in February

Description

The interest rates have remained low and could continue to trend lower for an extended period, as the priority will be accelerating economic growth. Amid low interest rates, dividend stocks with higher yields seem to be attractive investments for a steady income flow.

Here are two TSX-listed dividend stocks that are offering safe, high yields. Further, these companies could continue to hike their dividends in the future, thanks to their resilient cash flows.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) stock offers a high dividend yield of 7.5%, which is very safe. The energy infrastructure company has paid dividends for about 66 years and increased it in the last 26 consecutive years.

While uncertain energy outlook took a toll on pipeline companies, Enbridge's contractual arrangements and strength in its core business continued to drive its distributable cash flow (DCF) per shares and dividend payouts. Enbridge recently raised its dividend by 3% and projected 5-7% annual growth in its DCF per share through 2023 and beyond.

The company's CEO Al Monaco said, "We'll continue to ratably grow the dividend up to the level of average annual DCF per share growth, while maintaining our dividend policy payout of 60-70% of distributable cash flow." It means that Enbridge will continue to boost its shareholders' returns through higher dividend payments in the coming years.

Enbridge's multi-billion-dollar secured growth program is expected to generate strong incremental EBITDA in the coming years. Meanwhile, sustained momentum in its gas transmission, distribution and storage, and renewable power business is likely to support its growth and drive higher dividend payments.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) pays monthly dividends and offers a high yield of 7.3%. Its dividends have grown at a compound annual growth rate of 4.2% in the past 10 years. Moreover, it has paid and grown its dividends since 1998.

Pembina's dividends are supported through its significant fee-based, long-term contracts. Most of these contracts have take-or-pay or cost-of-service arrangements, implying it has no volume or price risk. Notably, Pembina generates most of its cash flows from fee-based contracts, suggesting its dividend payments are safe. Further, its payout ratio stands at 72% of the fee-based distributable cash flows, implying that its dividends are more than covered.

Pembina's diversified and highly contracted business is expected to support its future dividend payouts. Meanwhile, new projects are likely to drive its EBITDA and cash flows and, in turn, support higher dividend payments.

Pembina stock is also looking attractive on the valuation front. It trades at a lower valuation multiple than peers, which presents a good buying opportunity at the current price levels.

Bottom line

Enbridge and Pembina Pipeline own a diversified, low-risk, and highly contracted business, implying that these companies' payouts are safe and are likely to increase in the future years. I believe the economic expansion and recovery in demand are expected to support volume growth and drive meaningful improvement in earnings for these companies in 2021.

Notably, an investment of $75,500 (which is the cumulative contribution limit for the Tax-free Saving Account in 2021) distributed equally in these two stocks will generate a dividend income of about $5,587/year, or $465/month.

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