Passive-Income Investors: 2 High-Yield Dividend Stars Due for an Upside Correction

Description

Overly conservative, passive-income investors find themselves between a rock and a hard place, with bond yields still hovering around historic lows. Even after the steep bond market sell-off, which caused yields to quadruple off their bottom, I still don't think it's worthwhile to hold bonds. They're a losing investment, and they're hardly free from risk despite their categorization as a "risk-free" asset.

When you weigh what you'll get for the price you'll pay, bonds certainly do look expensive. In any case, the opportunity costs of holding only such fixed-maturity debt securities will remain high, as too will volatility in the bond market, as inflation rears its ugly head.

Passive-income investors: Forget bonds. Consider buying Canada's dividend stars

As a passive-income investor, there are many options that don't require one to settle for negative real yield. The stock market has fully recovered from the coronavirus crash. Still, many beaten-down dividend stars out there remain off considerably from their highs, and their dividend yields skewed towards the higher end of the historical range.

In this piece, we'll have a look at two beaten-down dividend stars in Canada's telecom scene. Both names possess secure, growing payouts with depressed share prices that could be subject to a correction to the upside on the other side of this pandemic.

Without further ado, consider **BCE** (TSX:BCE)(NYSE:BCE) and **Telus** (TSX:T)(NYSE:TU), which sport impressive yields of 6.1% and 4.8%, respectively, at the time of writing.

BCE

I view BCE stock as a bargain that's hiding in plain sight. The telecom behemoth was weighed down heavily by its media business in 2020. But as COVID headwinds fade, I think the name is in a spot to make up for lost time, as the firm's managers continue to put their foot to the gas. BCE recently made a big bet on 5G. The company boosted its capital spending plan by over $1 billion — a move that should double BCE's nationwide 5G coverage.

The dividend, which has grown modestly amid the pandemic, is a tad stretched. But that didn't stop management from hiking it modestly by 5%. BCE isn't slowing down, and it has no reason to ahead of what looks to be the perfect storm of tailwinds: a post-pandemic spending boom that could give way to mass adoption of 5G mobile tech.

Moreover, after big news that **Rogers Communications** is scooping up **Shaw Communications**, I think the competitive pressures will ease greatly over the next five years. The Big Three's return is bad news for Canadian consumers but good news for telecom titans like BCE.

So, if you're a passive-income investor who's looking for more dividend yield for less, it's tough to match the value proposition of the likes of a BCE in this "expensive" market.

Telus

If you seek greater growth, agility, and you're a bear on media assets (Telus has none), Telus shares may be more your cup of tea. For passive-income investors willing to forego over 1% in extra yield, there are many added benefits on the growth front. The firm, which recently spun off its **Telus International** IT business, has its focus narrowed on building a moat around its target markets. Like BCE, Telus isn't pulling the brakes on infrastructure spending. Once the pandemic ends and reluctant consumers buy 5G-enabled devices with their new 5G data plans, Telus stock could be in a spot to soar to even higher highs.

Like the other telecoms, Telus took a hit to the chin during the worst of the COVID-19 crisis. Management was able to weather the storm far better than its peers, and they really deserve a round of applause for their relative outperformance.

Amid COVID, Telus gets top marks, and that's reflected in the share price, which is just a hair (3.5% or so) away from all-time highs. Don't let the recent rally fool you; Telus stock still looks undervalued, given the favourable environment that lies ahead. You're getting quality, above-average growth, a juicy payout from the name, and an applaud-worth management team with Darren Entwistle at the helm. All of this, I believe, is worth paying up for.

Stay Foolish, my friends.

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