



The Smartest TSX Dividend Stocks to Buy With \$500 Right Now

Description

When you buy TSX dividend stocks, you don't just want the stock with the highest yield. In fact, oftentimes, an elevated yield should be an investor's warning signal. Basically, the market is saying investors need a higher upfront yield premium to compensate for higher risks in its business.

Sometimes high-yielding stocks are a bargain, but only sometimes

Now, this is not always the case. Sometimes the market gets it wrong. For example, last year in the COVID-19 market crash, a number of [TSX stocks](#) with very safe dividend payouts were trading with yields over 8%. Investors that did their homework were able to lock in historically high dividend yields for what was actually very minimal risk.

Dividend growth is a good test for business quality

The key is to make sure the company can afford its dividend regardless of the market environment. What is even better is owning a stock that is consistently and regularly raising its dividend. A stock that frequently raises its dividend also must have a good balance sheet, solid business fundamentals, and be producing a growing stream of cash flows. You can't raise your dividend if your business isn't progressing forward.

If TSX income investors consider some of these concepts, they can end up creating great predictable streams of monthly or quarterly cash flows. Are you looking for a high yield and dividend growth? Here are two smart TSX stocks I would put \$500 to work in right now.

A stock with one of the highest yields on the TSX

For a high-dividend-yielding stock, **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) looks pretty attractive today. It pays a 6.4% dividend. When the oil markets crashed last year, many investors were worried

this company would have to cut its dividend payout. However, its dividend is largely supported by contracted streams of cash flow from its pipeline assets. Over 70% of its counterparties have investment grade credit, so its baseline cash flows were relatively safe.

Also, during the pandemic, Pembina cut costs, created efficiencies, and uncovered operational capacity. Now, with energy markets on the rise, it has significant operating leverage. In an inflationary environment, it benefits from higher transport volumes and strong energy pricing margins.

This TSX stock is opportunistically looking to grow. Right now, it has its eyes set on three major deals, including acquiring **Inter Pipeline**, the Trans Mountain pipeline, and the Cedar LNG project. While all three could be pretty aggressive, even just one deal completed would make this stock [a Canadian energy superpower](#) for years to come.

A leading TSX dividend-growth stock

Oddly enough, that brings me to Pembina's challenger right now, **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))([NYSE:BIP](#)). It too is battling to acquire Inter Pipeline's diversified midstream business. While this deal certainly would give BIP a meaningful boost of growth, that is not the reason I would buy this stock today. Rather, this TSX stock is a dividend-growth machine.

If you've owned BIP for the past 10 years, you would have earned a nice 500% return. However, over 200% of that return would be from dividends earned! In fact, since 2009, it has grown its dividend by a compounded annual growth rate of 10%.

BIP has a diverse array of assets. Investors get exposure to everything from railroads to LNG export facilities to cell towers and data centres. The great thing is that a large majority of its assets are contracted or regulated, so cash flows are very predictable. Not only that, but over 70% of these contracts include inflation-indexed rate step-ups.

As inflation rises and the economy gets chugging forward, BIP will also get a meaningful boost to organic cash flows. Today, BIP pays a 3.6% dividend. Yet it is not hard to imagine that this payout will be much higher if it keeps compounding at the same 10% rate as it has in the past.

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TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:PPL (Pembina Pipeline Corporation)

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