3 High-Yield Stocks That Aren't Overvalued

Description

High-yield stocks have an interesting relationship with valuation. Most high-yield stocks *are* high-yield because the price takes a dip, but a discount in share price doesn't always translate to a discount in valuation. In fact, many high-yield stocks are outright expensive and overvalued, which sometimes also reflects in the higher payout ratio.

So if you are looking for relatively high-yield dividend stocks that are also a good valuation deal, there are three that should be on your radar right now.

A modestly high-yield stock

Extendicare (TSX:EXE) isn't a great valuation deal. It's currently trading at a price-to-earnings of about 13.9, a price-to-book of 5.85 (which pushes well into one area of overvaluation), and the price has almost reached its pre-pandemic valuation, so there's no discount there. But the 5.7% yield is decent enough, and the payout ratio is still in the safe territory (87.2%).

Extendicare has both B2B and B2C business segments, though the latter dominates. It owns 58 long-term care homes and 11 retirement communities, making it a decent-sized landlord in the senior care sphere.

It also offers home healthcare to seniors, and the company has completed 8.3 million healthcare hours. The bulk of the Net Operating Income (NOI) is generated by the long-term care homes, which is a relatively consistent income stream.

Currently, the occupancy is just above 90%, which means the company still has a lot of "vacant" potential to reach and can make its revenues and, consequently, its dividends even more secure.

A high-yield stock

If you are looking for a higher yield at a much more enticing valuation point, **Alaris Equity Partners**

(TSX:AD) might be the stock to go with. The company is still trading at a hefty discount from its pre-crash peak (23.8%), the price-to-earnings is at 7.7, and the price-to-book at 1.1, making it a bargain on both fronts. And these sweet price points are augmented by a juicy 7% yield.

The company recently changed its distribution frequency. Before 2020, the dividends were paid out on a quarterly basis. In 2020, the company started out with monthly dividends but changed the frequency once it was one quarter into the year. The payout amount reflects this shift, albeit with a significant drop.

The quarterly payout is 2.25 times the monthly payout, not exactly three times. The payout ratio, however, is very stable at 53.7%.

A very high-yield stock

The U.S.-based grocery store chain **Slate Grocery REIT** (TSX:SGR.U) offers a mouthwatering yield of 8.3%, and the stock is almost undervalued right now. It pays monthly dividends, and the payout ratio of 43% is significantly safer than last year. It can be chalked up to the company's impressive 1st quarter results.

This grocery-focused REIT has a geographically diversified portfolio of 80 properties in the U.S. But what offers more value and safety to the dividends is not how well diversified the portfolio is, but what it's made up of, namely, grocery properties. Even during the worst market crashes and recessions, essential food businesses (including groceries) manage to survive because people still have to eat.

That's what makes Slate Grocery and its powerful high-yield a relatively safe and long-term bet.

Foolish takeaway

While high-yields are not rare, high-yields with discounted valuations and long-term potential is rare. So it's important that you act fast before more investors start showing an interest in high-yield stocks, and a buying frenzy makes the stock more expensive and push the yield down.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:EXE (Extendicare Inc.)
3. TSX:SGR.U (Slate Retail REIT)

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