



How to Find High-Yield Dividend Stocks

Description

Stocks can play different roles in investors' diversified investment portfolios. High-yield dividend stocks may be more suitable for senior, low-risk, or income investors, because their stock prices tend to be more stable. Importantly, you'll want to seek out the dividend stocks that pay dividends year in and year out.

There are so many stocks on the **TSX**. How do you find dividend stocks that have high yields? One easy way to do so is by exploring the stocks in a high-yield dividend exchange-traded fund (ETF), such as **iShares S&P/TSX Composite High Dividend Index ETF** ([TSX:XEI](#)). Right now, this ETF consists of about 75 stocks from the **S&P/TSX Composite** index.

The iShares S&P/TSX Composite High Dividend Index ETF's three- and five-year annualized returns are about 9%, while its 10-year annualized returns are just over 7%. So, the returns have been pretty stable in the long run.

Given that the [ETF](#) has returned a whopping 43% in the last year, we should expect an investment today to deliver lower returns from current levels — at best, a 7% long-term rate of return.

The high dividend ETF's top 10 holdings are **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)), **BCE** ([TSX:BCE](#))([NYSE:BCE](#)), **Royal Bank of Canada**, **Toronto-Dominion Bank**, **TC Energy**, **Canadian Natural Resources**, **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), **Nutrien**, **Suncor Energy**, and **TELUS**. These are four energy stocks, two telecoms, and three banks. It's no wonder it has 73% of its weighting in the financials (30%), energy (29%), and communication services (14%) sectors. The utilities sector falls shortly behind, making up about 12% of the ETF.

If high income is what you seek, you could explore the idea of buying the highest-yielding energy, bank, and telecom stocks on the ETF's top 10 list. That would be Enbridge, Bank of Nova Scotia, and BCE.

Enbridge stock

ENB stock is a leading energy infrastructure company in North America. It generates stable cash flows from assets across liquids pipelines, gas transmission and distribution, and renewable power generation. Its yield of 6.8% is hard to beat.

The big dividend stock has a track record of increasing its dividend for 26 consecutive years. In the first half of the year (H1), it generated distributable cash flow (DCF) of more than \$5.2 billion, equating to a sustainable payout ratio of approximately 68% in that period.

When reporting its second-quarter results, management maintained its DCF-per-share guidance of \$4.70-\$5.00, which would continue to protect its high-yield payout.

Bank of Nova Scotia

The regulatory banking environment in Canada helps protect the profitability of big Canadian banks like Bank of Nova Scotia. An economic rebound post pandemic would be a tailwind for the international bank, which has a growing global wealth management operation that complements its international banking business and its core Canadian banking segment.

[BNS stock](#) has a track record of making dividend payments and the tendency to raise its dividend over time. The fairly valued stock is good for a solid 4.4% yield.

BCE

BCE is a diversified telecom with wireless, wireline, and media businesses. It provides the biggest yield of about 5.5%, among its peers. The large telecom projects steady growth to continue for 2021: revenue growth of 2-5% and adjusted earnings-per-share growth of 1-6%.

However, its payout ratio is a little stretched. It doesn't automatically mean that the telecom will freeze or cut its dividend, but it does make its dividend less safe. Based on the midpoint of BCE's 2021 free cash flow generation guidance, its payout ratio would be roughly 108% this year.

The Foolish investor takeaway

The high-dividend ETF is a great source of big-dividend stock ideas. However, you should investigate to determine which dividend stocks provide safe dividends and margins of safety for your money. The quick examples above suggest that Enbridge and BNS could be good high-yield dividend stocks for income seekers.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:ENB (Enbridge Inc.)
7. TSX:XEI (iShares S&P/TSX Composite High Dividend Index ETF)

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