2 Top Dividend Stocks Yielding up to 6.5%

Description

Income investors and those building RRSP or TFSA retirement portfolios are searching for top dividend stocks that offer attractive yields and opportunities for steady payout growth.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades near $80 per share at the time of writing and offers a 4.5% dividend yield. The company is the third-largest Canadian bank with a market capitalization of nearly $100 billion and is a growing player in the Pacific Alliance countries of Mexico, Peru, Chile, and Colombia.

The expansion into these markets might surprise investors given their political and economic histories, but the four countries are home to more than 230 million people. That compares to roughly 36 million in Canada. Banking penetration in the Pacific Alliance trade bloc is less than 50%, so Bank of Nova Scotia has an appealing opportunity for long-term growth. Volatility and risk are certainly higher, but the potential rewards justify the investments.

Bank of Nova Scotia is still generating decent profits in the international business, despite the challenges of the pandemic. Fiscal Q2 2021 net earnings from the international division came in at $429 million. That's more than double the same period last year.

Total bank net income was $2.45 billion in the quarter. Return on equity came in at a solid 14.9%, and Bank of Nova Scotia finished the quarter with a CET1 ratio of 12.3%. This measures the capital the company has on hand to cover potential losses. The Canadian banks are required to have a CET1 ratio of 9%, so Bank of Nova Scotia is sitting on significant excess cash.

The extra provisions were built up to ride out a wave of potential loan losses caused by the pandemic. Government aid for businesses and homeowners helped avoid the worst-case scenario, and Bank of Nova Scotia will look for ways to deploy the extra funds.

The government is expected to give the Canadian banks the go ahead to boost dividends by the end of

2021 or in early 2022. Investors could see a big payout hike when that happens.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is a midstream player in the Canadian energy sector providing a wide variety of services to oil and gas producers. The company has a 60-year track record of growth through strategic acquisitions and organic projects.

Pembina Pipeline can be aggressive when it comes to acquisitions. The energy infrastructure sector is expected to continue consolidating in the coming years, and this company will likely be active. It might also become a target.

Management moved quickly in the early part of the pandemic to shore up the balance sheet by raising funds and delaying some capital projects. As a result, Pembina was able to maintain the generous dividend. Payout increases should be on the way again in 2022 and beyond as the sector recovers.

At the time of writing, the stock trades near $39 per share and provides a 6.5% yield. The stock traded above $50 before the pandemic, so there is decent upside opportunity in the next couple of years.

The bottom line on top dividend stocks

Bank of Nova Scotia and Pembina Pipeline are top dividend stocks that offer attractive yields for TFSA or RRSP investors. If you only buy one, I would probably make Pembina Pipeline the first choice. The stock appears undervalued today and provides an above-average dividend yield.

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2. Investing

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2. NYSE:PBA (Pembina Pipeline Corporation)
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4. TSX:PPL (Pembina Pipeline Corporation)

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