How Safe Are Dividend Payments in 2022?

Description

Many companies across various sectors had bumper earnings in 2021 following the containment of COVID-19 and the re-opening of the economy. The theme in Q4 2021 was dividend hikes to reward shareholders. Most of the announcements, however, came before the Russia-Ukraine conflict.

Canada's banking and insurance sectors, for example, had a dividend bonanza towards the latter part of last year. Today, experts predict global growth in dividends to slow down or dim the prospects of big payout increases. According to the Janus Henderson Global Dividend Index, the yield could be lower than the 3% dividend-growth estimate prior to the war.

Investors relying on dividends for sustenance or financial cushion have every reason to feel anxious. Many question the safety of dividend payments amid the current environment. There could be dividend traps or cuts like in 2020 during the pandemic.

Rebalance your portfolio

Jane Shoemake, a client portfolio manager, global equity income, at Janus Henderson, said, "The impact of the crisis will vary according to the sector and company with some being more impacted than others by sanctions and rising input prices."

Fortunately for Canadian investors, the stock market has shown resiliency, thus far, in 2022. The threat of rising inflation is ever present, although blue-chip companies can endure a potential economic downturn. If you need to rebalance your portfolio or take new positions, a big bank stock and TSX Dividend King are dependable choices.

Big bank

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is a bit pricey, but it should give you peace of mind. At $147.37 per share, the dividend offer is 4.37%. Also, Canada's fifth-largest lender has been a dividend payer since 1868. Thus, the 154-year dividend track record should give you the confidence to invest.

Like its industry peers, CIBC has excess common equity tier one (CET1) capital it can use to accelerate its client-focused strategy, particularly in the United States. In Q1 fiscal 2022 (quarter ended January 31, 2022), reported and adjusted net incomes increased by an identical 15% versus Q1 fiscal 2021. The net income of its U.S. Commercial Banking and Wealth Management business grew 20.21%.

CIBC president and CEO Victor G. Dodig, said, "In the first quarter, the continued execution of our strategy and ongoing investments in our bank enabled us to deliver strong financial results." Market analysts forecast the share price to climb 19.45% in one year.

Dividend King

Canadian Utilities (TSX:CU) is the only TSX stock with a dividend-growth streak of 50 consecutive years. The utility stock earned the Dividend King status after raising its dividend (1%) on March 1, 2022. If you invest today, the share price is $39.21, while the dividend yield is 4.53%.

The $10.47 billion diversified global energy infrastructure company will report its Q1 2022 earnings results late this month. In 2021, adjusted consolidated earnings increased 9.53% to $586 million versus 2020. The year-over-year growth indicates the resilient business model amid the challenging environment.

Canadian Utilities derives revenues from three core segments, namely Utilities, Energy Infrastructure, and Retail Energy. The cash flows are stable because the bulk of investments, or 75%, goes into regulated utilities.

Be risk averse

Income investors need to be risk averse in 2022. If you seek safety of dividends, own shares of CIBC and Canadian Utilities.

CATEGORY

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3. TSX:CU (Canadian Utilities Limited)

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Date
2025/09/26
Date Created
2022/04/10
Author
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