2 High Dividend Stocks to Buy in September

Description

Do you think only REITs pay a high dividend? Here is a mortgage lender with an over 8% dividend yield, which it distributes in 12 monthly instalments. If you invest $2,000 in this stock, you can earn around $14 a month while your $2,000 principal remains invested and responds to stock price fluctuations.

I will end the suspense and introduce you to the stock.

A stock that pays $14 every month on a $2,000 investment

With a market cap of just over $700 million, **Timbercreek Financial** (TSX:TF) is a small-cap stock that went public in 2016. In its sixth year of operation, the non-bank lender provides shorter-duration (less than five years) mortgages to commercial real estate investors. Lenders use the money for property repairs, redevelopment, or purchase of another investment. They repay these mortgages through the sale of assets or from their traditional, longer-term mortgages.

Timbercreek mitigates its risk by lending to income-generating commercial property across major urban areas of Canada. In the second quarter, 90.8% of its mortgage investments were from income-generating properties.

Rising interest rates and Timbercreek

Most of Timbercreek's mortgages are floating rates, which means if interest rates are rising so too is interest income. Its investment income increased 10% year-over-year in the second quarter. However, a higher interest rate reduces its loan turnover (loan repayment as a percentage of total loans issued). The mortgage lender's portfolio turnover ratio reduced to 8.1% in the second quarter from 11.4% in the previous year's quarter. Its credit utilization rate reduced to 88.3% from 89.9% a year ago.

Timbercreek distributes its loan processing and interest income to shareholders through monthly dividends. It has been regular with its dividend payments since July 2016. The risk is how long the company can survive in a recession. So far, its balance sheet is strong and has adequate provisions for bad debt. But if a scenario like 2007 happens, a mass default could hamper Timbercreek's earnings. This is a stock that will flourish in a recovering economy. However, it has a lower trading volume, which makes it difficult to liquidate.

The primary reason to buy this stock is to enjoy an over 8% yield and be prepared for a dividend cut if the recession deepens. To balance the risk of Timbercreek's dividend cuts, simultaneously invest in dividend aristocrats.

Dividend history of six years versus 60+ years

In the Canadian market, energy and utility stocks are the dividend aristocrats as the country has one of the largest oil sand reserves. Timbercreek is a new company that has six years of dividend history. **Enbridge** (TSX:ENB)(NYSE:ENB) stock has 67 years of dividend history. Even after so many years, the stock has maintained an average dividend yield of 6%, thanks to Canada's oil and gas exports to the United States.

Enbridge has withstood the 2007 recession, the 2014 oil crisis, and the 2020 pandemic without dividend cuts. This resilience comes from the strong pipeline infrastructure Enbridge has built over the years, and some of these income-generating pipelines have paid up their development costs. The addition of new pipelines brings new sources of cash flow that have helped Enbridge grow its dividend for 27 years. However, its dividend growth rate has slowed from 9% to 3% since the pandemic, as building new pipelines is becoming difficult due to environmental concerns.

A $2,000 investment in Enbridge and Timbercreek would fetch you $120 and $167, respectively, in annual dividends. The $47 premium is for the risk that comes with Timbercreek. Both these stocks can help you build a passive income portfolio with a better risk-return ratio by diversifying your risk across industries, company size, and dividend history.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)
3. TSX:TF (Timbercreek Financial Corporation)

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