2 Canadian Dividend Stocks With Ultra-Safe Payout Ratios

Description

One of the most important factors to consider when analyzing Canadian dividend stocks are their underlying businesses, how defensive they are, and how risky each investment is, particularly if we were to hit an economic slowdown.

However, another measure that's used to assess a dividend's stability and how much risk it possibly has is a stock's payout ratio.

A payout ratio basically shows how much cash a company is paying back to investors out of all the profits that it has generated. Other uses for that cash could include paying down debt or investing in growth.

And, of course, there's always the concern that a company's income could fall from year to year. So, without a safe payout ratio and adequate liquidity, companies could end up cutting their dividends, which would devastate the stock price.

With that in mind, and with all the uncertainty about the economy and stock market these days, here are two top Canadian dividend stocks that have ultra-safe payout ratios.

An unbelievably cheap-value stock offering a significant dividend

One of the first Canadian dividend stocks to consider today is one that's been cheap for some time, **Corus Entertainment** (TSX:CJR.B). However, while the stock is cheap, and many investors have been avoiding it while it's in turnaround mode, the cash flow it generates is incredible, which is why its dividend is so safe.

Corus generates the majority of its revenue and income from selling advertising on TV. This is an industry that isn't completely impacted by recessions but certainly does see some negative effects as economic growth slows down.

Nevertheless, with how much value Corus offers today and its dividend, which currently yields 6.7%, it's still one of the most compelling stocks to buy now.

Most Canadian stocks that offer dividend yields above 5% or 6% are typically paying out the majority of their income. However, because Corus is so undervalued and currently trading at just 4.5 times its forward earnings, its payout ratio stands at roughly 33%.

Therefore, even if Corus's income were to be cut in half, it would still have more than enough to continue paying its dividend. If you're looking for top Canadian stocks to buy now to help boost your passive income, Corus is one of the best to consider.

A top energy company that earns tonnes of cash flow

As the energy industry has rebounded from the pandemic and now has significant tailwinds as a result of the Russian invasion of Ukraine, one of the best Canadian dividend stocks to own has been **Freehold Royalties** (TSX:FRU).

In less than two years, Freehold has increased its dividend on seven separate occasions. Back in December of 2020, the stock was paying out just $0.18 a share annually as its dividend. Today, Freehold pays more than $1 per share annually, as the company has rapidly recovered.

But because energy stocks are seeing massive tailwinds right now, and ones that may not persist forever, management has been careful not to increase the dividend too quickly.

Right now, based on what Freehold is expected to earn in free cash flow this year, its dividend, which offers a whopping 7.5% dividend yield, has a payout ratio of just 65%.

Furthermore, even next year, when many expect energy prices to come back down to earth, it's still expected to have a payout ratio of roughly 50%.

Furthermore, it's worth noting that over the long term, Freehold aims to keep its payout ratio between 60% and 80% of its funds from operations.

Therefore, if you're looking for top Canadian dividend stocks to buy now, Freehold's significant yield and attractive business model that sees it constantly earning tonnes of cash flow make it hard to ignore.

CATEGORY

1. Dividend Stocks
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2. TSX:FRU (Freehold Royalties Ltd.)

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