2 TSX Dividend Stocks Offering Big Income in a Bearish Market

Description

This year was bearish as the central banks hiked interest rates to pull out the stimulus money they injected into the economy during the pandemic. When money leaves the economy, the stock market plunges. The 2022 bear market has created an opportunity for value investors to lock in some big income for the long term.

Something about dividend stocks

Recently, a mid-cap dividend stock **Algonquin Power & Utilities** plunged 35% after it reported weak earnings. The rising interest expense reduced the company's net income by 25%. Moreover, negative free cash flow reduced investors' confidence in the company's ability to sustain its high dividend. A similar situation happened with several REITs during the pandemic.

But there is something you need to know about dividend stocks. They are companies that have demand and enjoy streaming cash flows. They also have significant debt. But because these stocks don't give as much in capital appreciation as growth stocks, dividends are the major source of returns. As an equity shareholder, you accept both the risks and rewards the company faces. There is a risk of dividend cuts in a recessionary environment, but there is a reward of dividend growth in the long term.

When buying a dividend stock, keep a long-term investment perspective. A bear market is a time to buy such stocks at a significant discount. Here are two TSX stocks offering an opportunity to lock in big income in the 2022 bear market.

A REIT that offers big income

Slate Office REIT (TSX:SOT.UN) stock price fell 11% this year, which increased its distribution yield to 8.9%. What does this mean? Slate's annual dividend per share remains at $0.4, but you can now get this passive income for $4.45 instead of $5.2 a share. The REIT will continue to pay monthly distributions as long as it exists because a trust is required to pay a significant portion of its cash flows to its shareholders.

Therefore, you need to focus on the distributable cash flows (DCF) and how much the REIT is paying as distributions. A 70–80% payout ratio is sustainable, considering the ups and downs in rental income. If the DCF falls 20% in a particular quarter, the REIT can adjust the cash flows and maintain the distribution. But if this situation persists for a longer time, the REIT might cut distributions, as it did in 2019.

Slate Office REIT's current DCF can sustain its distributions as its payout ratio is around 75%. Moreover, the REIT used the dip in property prices to offload low-yielding properties and buy high-yielding properties with strong tenant bases.

If you invest $1,000 in the REIT, you can lock in annual cash flows of ~$90 for the next few years while your principal investment remains in the $900-$1,100 range.

A mortgage company with a big income

Another good dividend stock is **Timbercreek Financial** (TSX:TF). The stock price fell by 21% this year, which increased its dividend yield to 9.16%. So you can lock in a $0.69 annual dividend per share for $7.54. The company provides short-term mortgages to commercial properties. As interest rates increased, the company's interest income surged by $8 billion in the third quarter.

However, higher interest rates slowed loan origination volumes, reducing its income from processing fees by $1 billion. However, its third-quarter net income increased 30% year over year, demonstrating the company's durability through market cycles (as noted by Timbercreek's CEO, Blair Tamblyn). Timbercreek management expects to continue paying its annual dividends. In the worst-case scenario, the company might halve dividends to $0.35, which equates to a 4.5% yield at the current stock price of $7.54.

If you invest $1,000 in Timbercreek, you can lock in $90 in annual cash flow. Your principal investment will likely hover between $900 and $1,200.

Investing tip

When you invest in a fundamentally strong stock on the dip, your downside risk is reduced while the upside increases. The above stocks are risky. So ensure you have a significant portion of your portfolio invested in dividend aristocrats like **Enbridge** and **Canadian Utilities**. They are less risky than small and mid-cap stocks.

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1. Dividend Stocks
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