



3 Top Dividend Payers on the TSX – Should You Buy Today?

Description

Dividend stocks have traditionally been solid investments to hold when the stock market is [volatile](#). Even though the stock market may decline, you still collect a stream of income that can offset any temporary declines in stock value.

However, this presumption is being challenged, especially in a rising interest rate environment. Many dividend-paying stocks have utilized a lot of debt to finance their capital and asset-heavy businesses.

Consequently, rising interest rates can reduce earnings power as companies go to refinance debt. In addition, institutional money often moves from dividend stocks to safer bonds in such times. This may explain the recent decline. For [long-term investors](#), lower-priced stocks can be an opportunity, but you do have to be cautious.

Algonquin stock has a big dividend yield but also big risk

For example, **Algonquin Power and Utilities** ([TSX:AQN](#)) trades with a 9.93% dividend at a price of \$9.33 per share right now. While that dividend may seem enticing, the fact that it is so high indicates that there is some [risk](#).

In its recent third quarter, this [utility stock](#) came out with significantly lower earnings than the market expected, and the shares collapsed. In the pursuit of an aggressive growth strategy, Algonquin took on too much variable rate debt and it is now putting pressure on earnings.

As a result, the market is predicting that Algonquin's dividend and growth outlook will likely be lower going forward. This TSX dividend stock is undoubtedly cheap, but there is also a lot of uncertainty to the name.

If you can be a contrarian and don't mind volatility, this may be the stock for you. However, if you can't stomach losing the dividend, it would be best to wait for management to detail a prudent plan forward.

NorthWest Properties could face some balance sheet challenges

Another stock with a big dividend is **NorthWest Healthcare Properties REIT** ([TSX:NWH.UN](#)). This stock is down nearly 30% this year. It trades with an 8.11% dividend yield.

NorthWest operates a high-quality portfolio of hospital and healthcare-related properties around the world. These properties are very defensive with long-term tenants and a solid rental growth profile.

The problem is NorthWest has financed its growth strategy with a lot of equity and variable-rate debt. It planned to place several property portfolios into joint ventures, but that is taking much longer than anticipated.

Today, high debt expenses are eating up rental cash flows. As a result, its dividend is questionably unsustainable, and it could be at risk of a dividend cut.

Granite REIT has a smaller dividend, but a sustainable profile

Rather than seeking stocks with large dividends, dividend growth and dividend sustainability may be the more prudent investment given such uncertain economic times.

One dividend stock I'd prefer to the two above is **Granite Real Estate Investment Trust** ([TSX:GRT.UN](#)). At \$75.30 per unit, the stock trades with a 4.1% dividend yield. The REIT has an institutional-quality portfolio of industrial and logistics properties in Canada, the U.S., and Europe. It has very long-term leases with investment-grade tenants and occupancy over 99%.

Granite has an investment-grade credit rating of BBB (high) and a net leverage ratio of only 30%. Almost all its debt is fixed with a long average term to maturity of 4.4 years.

As a result, the [REIT](#) has been able to buy back stock and increase its dividend to over 3% this year. Likewise, it has the financial flexibility to opportunistically invest in properties if valuations continue to weaken.

Granite has raised its distribution for 12 consecutive years. While it does not have a huge dividend, it is a very well-managed REIT, and pretty cheap at today's prices.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:GRT.UN (Granite Real Estate Investment Trust)
3. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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Date

2025/08/24

Date Created

2022/12/16

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