2 Ultra-High-Yielding TSX Stocks to Buy With $1,000

Description

What's considered an ultra-high yield for TSX stocks? Right now, the best yield for a one-year Guaranteed Investment Certificate (GIC) is 5.3%. So, how about considering an ultra high yield to be greater than 5.3%? Remember that stocks could potentially deliver price appreciation as well.

Does higher yield imply higher risk?

The general rule of thumb is that there's a catch in ultra-high-yield stocks. These dividend stocks could deliver slower growth, have greater debt levels, or even have a higher chance of cutting their dividends.

For example, **Algonquin Power & Utilities** (TSX:AQN), a regulated utility, just cut its dividend by 40%. In the last few months, its dividend yield reached north of 11%. Of course, through the high yield, the market was already giving a cue that its yield wasn't safe. After the cut, the stock now yields just under 6.1%. So, it's still an ultra-high-yielding stock.

Can you trust Algonquin's yield now? The latest company update indicates that Algonquin is committed to maintaining an investment-grade credit rating of BBB. The payout ratio for its smaller dividend is much more sustainable. And going forward, it aims to increase its dividend at a rate that more aligns with its adjusted earnings-per-share growth.

There are some uncertainties, though. It plans to make $1 billion in additional asset sales. The proceeds will go to debt repayment or to fund growth. In December, the U.S. regulator, Federal Energy Regulatory Commission (FERC), stopped Algonquin from acquiring Kentucky Power, which was a big piece of Algonquin's growth plan. But Algonquin continues to work on this acquisition to gain FERC's approval.

Algonquin probably wouldn't have cut its dividend if interest rates were low. But because of interestrate hikes in 2022, and it has had relatively high debt levels, it is now forced to reduce its debt toimprove its balance sheet. On the positive, it doesn't need to issue new equity through 2024.Hopefully, by 2025, its stock price will have recovered substantially.

Currently, it's a turnaround investment that analysts believe can deliver price appreciation of 30-50% on top of its ultra high yield.

Another ultra-high-yielding TSX stock

Sienna Senior Living (TSX:SIA) is another ultra-high-yielding TSX stock investors can consider. It has maintained a stable and sometimes growing dividend since at least 2011. Government funding helps support its long-term-care portfolio. So, it was able to maintain a relatively high average occupancy of 88.4% in the first three quarters of 2022. (It has yet to report its fourth-quarter results.) The company has also managed its retirement portfolio well. This portfolio witnessed same-property occupancy of 86.5%, up from 78.7% the same period a year ago.

Sienna expects to benefit from a growing aging population. The census projects that the seniors' population in the +85 age group will triple over the next 25 years in Canada.

The stock sold off in the last year, primarily from rising interest rates. However, it has been bid up in the last three weeks, which could be a cue to buy.

At $11.75 per share writing, Sienna yields 8.0%. Analysts believe investors could potentially pocket price appreciation 23% on top of the ultra high yield.

The Foolish investor takeaway

Ultra-high-yielding stocks are generally higher risk. They may have low earnings or cash flow growth. However, if they are undervalued, they could have outsized valuation expansion prospects. Investors might consider allocating a small percentage (such as no more than 10%) of their stock portfolios in ultra-high-yielding stocks.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:SIA (Sienna Senior Living Inc.)

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