3 Ultra High Yield Stocks I'd Buy in 2023

Description

When it comes to dividend stocks, I generally prefer growth over yield. The reason is simple:

A stock with strong dividend growth may have a higher yield tomorrow; a stock with an extremely high yield could see its dividend cut in the future.

A very long track record of dividend growth indicates financial stability, because a company can't just borrow its way to 20 years of rising dividends. If one tried to do that, it would run out of money soon enough. So, rising dividends tend to correlate with financial health.

That's not to say that high yield stocks can't be good, though. To the contrary, many of them deliver solid total returns. If you look at stocks that have high yield, growth, and financial soundness, you often find top performers. In this article, I'll explore three high-yield dividend stocks I'd consider buying in 2023.

Enbridge

Enbridge Inc (TSX:ENB) is a Canadian pipeline stock with a 6.4% yield. Its business model involves shipping crude oil to the United States, and supplying natural gas to Ontario. Both businesses are massive: ENB has the largest pipeline network in North America, and supplies 75% of Ontario's natural gas.

How safe is Enbridge's dividend?

Currently, the payout ratio (dividends divided by earnings) is over 100%. That in itself tends to suggest that the dividend is perhaps a little risky. However, if we substitute distributable cash flows (cash available to be paid as dividends) for earnings, then we get just a 70% payout ratio. That's fairly healthy, and actually below average for a pipeline stock. Over the last five years, ENB has grown its dividend by 9.7% per year, so this is a dividend growth stock *and* a high-yield stock all rolled into one.

Pembina Pipeline

Pembina Pipeline (TSX:PPL) is another pipeline stock, this one with a 5.4% yield. Pembina's dividend growth rate is not as high as Enbridge's, but it has certain other advantages.

First, as a smaller company, it has more room to grow.

Second, Pembina has investments in marketing and storage, which give it some operational diversification.

Third, Pembina grew faster than Enbridge did last quarter, with a 29% year-over-year increase in revenue.

On the whole, I'm more enthusiastic about Enbridge stock than PPL. Its dividend growth is better, and it's a much more entrenched company. However, Pembina is smaller and therefore could grow more in a best-case scenario. Perhaps it's ideal to have a little exposure to both.

First National

First National Financial (TSX:FN) is a Canadian mortgage lender. It's not a bank, it doesn't take deposits, rather it partners with mortgage brokers to find people who are shopping for the best rates, and sells mortgages to them. This is a pretty simple business model for a financial company, but it has worked well for FN, which saw its revenue increase 11% last quarter. First National faces some risks from a cooling housing market, but on the other hand, it's collecting increasing amounts of interest on mortgage loans that were issued in the past. With a business model that benefits from high interest rates and a 6.3% dividend yield, it's definitely one to take a serious look at.

CATEGORY

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2. TSX:FN (First National Financial Corporation)
3. TSX:PPL (Pembina Pipeline Corporation)

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