3 Big-Dividend Stocks to Buy in January 2023

Description

Investors need to be careful with stocks that pay *big* dividends. Any dividend that is floating over 8% is normally one to be very cautious about. The market tends to sniff out businesses that are underperforming or facing considerable headwinds. As a result, they drop the stock and raise the dividend premium to compensate for that risk.

Beware of stocks with excessively “big” dividends

That is exactly what happened with **Algonquin Power** stock. It was trading with an 11% dividend yield, before management cut the dividend by 40%. Today, Algonquin stock trades with a 6% dividend yield, but still faces several business challenges.

In a low interest rate environment, businesses could afford to pay big dividends while funding their business operations and growth expenditures. In a higher rate environment, it can be increasingly difficult to do both.

The point is, don’t sacrifice business quality just for the sake of a big dividend. If you are looking for stocks that pay good dividends and can afford to keep growing “bigger,” here are three ideas to think about.

Topaz: A growing 5.6% dividend

Topaz Energy (TSX:TPZ) is one energy stock that flies under the radar for many Canadian investors. With a price of $21.11 per share, it trades with a 5.6% dividend yield today. Topaz earns gross overriding royalty interests on 5.3 million acres of land across top natural gas production fields in Western Canada. It also owns stakes in several gas and water processing plants.

The company has a very efficient structure (it only has a few employees) and benefits when oil activity increases (like it is currently). In 2022, it saw free cash flow grow by 58%! It also increased its dividend 41% in the year.

The company generates a lot of excess cash and only has a moderate amount of debt. As a result, it has flexibility to grow by acquisition and potentially keep growing its dividend further in 2023.

Dream Industrial REIT: A 5% distribution payer

Dream Industrial Real Estate Investment Trust (TSX:DIR.UN) is another intriguing big-dividend stock. At $13.78, this stock trades with a 5% dividend yield. It helps that this dividend stock pays its dividend monthly.

Dream Industrial owns 46 million square feet of multi-tenanted industrial properties across Canada and Europe. It also manages a joint venture (JV) portfolio in the U.S. and soon a JV portfolio of the **Summit REIT** properties. Dream is expected to grow its funds from operation (FFO) per unit (a key real estate measure of profits) by 8% in 2022. It could do just as well in 2023.

Dream has one of the lowest levels of debt among real estate investment trusts in Canada. This helps protect the sustainability of its income. It trades at a near 20% discount to its net asset value, so it still looks like a bargain.

BCE: A ~6% dividend stock

If you really want a large dividend, but perhaps at the cost of growth, **BCE** (TSX:BCE) is a stock to hold. With a price of $61.90, this dividend stock earns a 5.95% yield. BCE is Canada's largest telecommunications business, and it has a large competitive position in the market.

BCE has been making large investments into 5G and fibre optic networks. In the next few years, this will likely translate into mid-single-digit earnings and cash flow growth. BCE has a manageable amount of debt with an average term to maturity of 14 years. This means rising rates should only have a minimal near-term impact on earnings.

For modest earnings growth, +5% annual dividend growth, and a nice large dividend, BCE is a relatively low-risk stock to consider today.

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2. TSX:DIR.UN (Dream Industrial REIT)
3. TSX:TPZ (Topaz Energy Corp.)

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