Just Released: The 3 Best Dividend Stocks to Buy in November 2022 [PREMIUM PICKS]

Description

Premium content from *Motley Fool Dividend Investor*

All financials presented in U.S. dollars except share price.

Dividend Investor "Best Buys Now" Pick #1:

Topaz Energy (TSX:TPZ)

I'm not sure how I've managed to overlook **Topaz Energy** (TSX:TPZ) as a top timely stock worthy of your investment money. It's probably because I often look for dividend stocks that have slipped meaningfully below what I consider to be "fair value," and I forget that companies demonstrating continued quiet excellence deserve attention, too.

That's Topaz. All this royalty and infrastructure play has done since its October 2020 market debut is generate cash, deploy capital into additional acreage that allows for greater future royalties, and steadily return cash to shareholders via a dividend that Topaz has raised five times (not a typo) since its IPO.

Since that IPO, Topaz has more than tripled revenue and cash flow. At the same time, the steady dividend progression is only now up 50% from its debut. The payout ratio (percentage of cash flow paid as dividends) has fallen from 82% to under 47% today.

And I view this as a positive thing, Fools. As a royalty collector, Topaz is a direct beneficiary of high commodity prices, which have been (ahem) "elevated" for some time now.

To illustrate, consider Topaz's "blended realized price" (a single-figure measure of price for its disparate commodity royalties on natural gas, both light/medium and heavy crude oils, as well as natural gas liquids):

One way of looking at this blended commodity price is that's it's gone from $15.86 per barrel of oil equivalent (boe) in 2020 to $43.17/boe in the most recent quarter — a near triple in a few years; it sounds great (from an investing perspective), right?

But *another* way of looking at this price is that it *fell* 31% quarter over quarter. Framed that way, it's kind of a disaster, no?

My take is that you want a company to build in some "margin of safety" to account for the vagaries of commodity pricing so it can protect its dividend payout during times when prices fall. And that's what *not* raising the dividend commensurate with other financial measures (revenues, earnings, and cash flows) gives you. As commodity prices have spiked into Q2-22 and subsequently eased off in Q3-22 (or, in the case of just natural gas, plunged), Topaz's conservative payout ratio means that not only is the dividend protected, but the company could see it raised! Building wiggle room in the payout ratio seems only prudent.

Given Topaz's steady and strong performance, I'll be keeping a much closer eye on this one from now on.

Jim Gillies owns shares of Topaz Energy. The Motley Fool recommends Topaz Energy.

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