



Buy This High-Yield Dividend Stock in December for Its 11% Income Stream

Description

I like shooting for a 7% to 8% annual dividend yield on my stock portfolio — an insane goal given that the broad **TSX** dividend yield tends to hover around 3%.

I have an investment strategy that is called the “cherry on the top” way of investing and I use it to handily beat the standard market dividend rate. This means that I fill the base of my “cake” with the highest quality, large-cap, global and diversified blue-chip stocks I can find, like **Enbridge**, which has a 6% yield.

Next, I might put some slightly medium risk, medium reward “icing” by tacking on companies like **Alaris Royalty**, which has a 7.5% yield.

Finally, I put a “cherry on the top” in the form of a higher risk, higher reward stock like **Chemtrade Logistics Income Fund** ([TSX:CHE.UN](#)), with its monster 11% dividend yield to round out my selections and make sure that I can get to an 8% dividend yield on a weighted average basis.

In order for this strategy to work successfully, my “cherry on the top” stock doesn’t have to provide me with a ton of capital gain, but it does need to sustain its high yield through good times and bad. So, sit back and relax while I tell you why I believe Chemtrade’s monster 11% dividend yield is secure.

North American leader

Chemtrade is one of North America’s largest suppliers of industrial chemicals and services to customers in North America and around the world.

Chemtrade operates a diversified business providing much-needed products like sulfuric acid, acid processing services, water treatment chemicals, sodium, and phosphorous based industrial products.

Now if you were thinking that the company is in a boring business, you would be absolutely right. This stock may not send your heart fluttering, but neither will it give you any panic attacks, as there's a constant need for these types of industrial products and the demand continues to be extremely stable.

Operating excellence

The company had a turbulent 2018, which is partially the reason why the dividend yield has ballooned from a more mainstream 6% to an eye-popping 11%.

However, Chemtrade has addressed many operational issues in 2019, including fixing supply chain issues, especially with the rail carriers that the company relies upon to get its products to market in a timely fashion.

The company has also addressed its human capital issues like employee retention, which were causing a lot of management headaches because recruiting new people is costly and there is also an implicit cost as working knowledge of the company keeps walking out the door and new folks have to be trained constantly.

This type of revolving-door situation doesn't lead to an employee base that are experts at their craft and operating at their best.

Finally, the company felt that its growth and increased complexity make it challenging for shareholders to understand the key drivers of the business, as well as the risks and rewards. To combat that, the company has started issuing guidance on key drivers of business results to create greater transparency for investors.

2019 financial results

Chemtrade reported third quarter adjusted EBITDA of \$90 million, above street consensus of \$86 million. Management also reiterated its 2019 adjusted EBITDA guidance of \$335 million to \$375 million and continues to expect results to come in at the lower end of this range.

The distributable cash per unit for the year is estimated to be around the \$1.30 to \$1.40 range, according to some Bay Street estimates' the current annual dividend is \$1.20.

This means that the dividend is covered by the cash coming into the company, which is why I believe that the dividend yield is extremely safe and dependable.

Investor takeaway

While Chemtrade may not be increasing its dividend payments anytime soon, I'm confident that the current 11% yield is completely sustainable and smart investors would do well to keep a close eye on this stock and lock in this juicy yield heading into December for a secure passive income stream for 2020 and beyond.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:CHE.UN (Chemtrade Logistics Income Fund)
4. TSX:ENB (Enbridge Inc.)

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