3 Ultra-Safe Income Stocks Yielding Up to 4.1%

Description

For us income investors, the prospect of a dividend cut is enough to keep us lying awake at night in a cold, musty sweat.

That's why we must look beyond simple dividend yields and payout ratios. To build a reliable income stream, we need to identify wonderful businesses that can weather any economic ups and downs.

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For investors on the hunt for reliable dividend stocks, natural monopolies can be a smart alternative. In some industries, it just doesn't make economic sense to have more than one player. These industries can be lucrative for one company, but increased competition would ruin it for everyone.

Think about airports or highways for example — there wouldn't be enough demand for two companies to profitability serve the same market. This means existing players can consistently pay out tall dividends for shareholders without the worry that competition will eroding profits.

Turning on the dividends

Fortis (TSX:FTS) is the country's largest public gas and electric utility. The company serves 2.4 million customers in Canada, New York State and the Caribbean, which provides a predictable earnings stream. Though in addition to its regulated utilities, Fortis also owns non-regulated commercial real estate, hydroelectric generation assets, and hotels.

Why is this such a good business? Because the utilities industry is the textbook example of a natural monopoly. The cost to enter the sector is monstrous. It's economically inefficient to create a second means of producing and delivering power in an area. This creates an almost impenetrable barrier to entry for lurking competitors.

This means that Fortis will be able to earn excess returns for investors year after year without the worry of competition eroding margins. This has translated into a steady stream of raising dividends. And if that weren't enough, Fortis pays a fat 4.1% dividend yield so you don't have to wait forever to earn a respectable income.

Full steam ahead

Canadian Pacific (TSX:CP)(NYSE:CP) is the country's number-two rail shipper. The company operates 24,000-kilometre rail network serving customers across Canada and the midwest of the United States. CP's bread-and-butter is moving commodities. However, the firm is also increasing its presence in businesses international containers and domestic general merchandise.

Dividend-hungry investors love CP because its track network is virtually impossible to replicate. The company's assets span across the densely populated areas outside of Calgary, Edmonton, and Vancouver. Its installed track and rights of way form a nearly impenetrable barrier to competition from other railroads. And while trains still compete against trucks, railroads have a structural cost advantage when it comes to transporting certain commodities like coal.

CP is a well-managed company with healthy cash flow generation and good growth prospects. And while the company's 0.82% dividend yield might not turn many heads, investors can expect that payout to increase in line with earnings growth.

Earn a 4.3% yield from Alberta's energy boom

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Pembina Pipeline (TSX:PPL)(NYSE:PBA) is the forgotten child of the Canadian midstream industry. The company is often overshadowed by its more controversial rivals like **TransCanada** or **Enbridge**.

But what Pembina lacks in excitement, it more than makes up for in profitability. Over the past decade, the company has increased its dividend at a 7% annual clip and its share price has been the top performer of its peer group. Today, the stock yields an impressive 4.3%.

However, more important than a tall distribution is the sustainability of that payout. It would be incredibly expensive to replicate the company's enormous and strategic asset base. And given that the company's pipelines are supervised by Canadian and U.S. regulators, the company is almost guaranteed to outearn its cost of capital. That means investors can expect those dividend cheques to continue to keep rolling in for a long time to come.

Foolish bottom line

There's more to income investing then picking out the highest yielding stock and collecting dividend cheques. Investors must analyse the business behind the numbers to ensure that the company can sustain and grow those distributions. For investors on the hunt for ultra-safe dividends, companies that boast a natural monopoly are a good place start looking.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:CP (Canadian Pacific Railway)
4. TSX:FTS (Fortis Inc.)

5. TSX:PPL (Pembina Pipeline Corporation)

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