Attention Income Investors: 2 Stocks With Reliable Yields Above 6%

Description

In the good old days, an income investor could rely on bonds, GICs, or even savings accounts to provided adequate cash to meet monthly or annual income gaps.

Unfortunately, those days are long gone, and dividend stocks are pretty much the only game in town for anyone who needs to squeeze a bit of extra cash out of their savings.

Today, the trick is to find a decent yield with minimal risk of a dividend cut.

Here are the reasons why I think **National Bank of Canada** (TSX:NA) and **Inter Pipeline Ltd.** (TSX:IPL) are worth considering right now.

National Bank

National Bank of Canada is down 25% in the past 12 months as investors worry about the weakening Canadian economy.

The Quebec-based bank is the baby of the Big Six and has endured a rough couple of quarters with write-offs on bad investments and intense competition forcing layoffs and a capital raise.

This doesn’t paint a very good picture, and things could get worse before they get better, but the sell-off in National Bank looks overdone.

The company just reported decent fiscal Q1 2016 results. Year-over-year net income in the personal and commercial banking segment rose 8%, and the wealth management group delivered a 4% gain.

Management raised the dividend last December, so the executive team must be pretty comfortable with the revenue and earnings outlook, despite the challenges in the market.

The current quarterly distribution of $0.54 per share yields 6%. The payout ratio is about 50%, so the dividend looks safe.

The stock currently trades for just 8.1 times trailing earnings and only 7.3 times forward earnings estimates, so there is an opportunity for some capital appreciation down the road if the Canadian economy avoids the massive crash the market is pricing into the stock.

Inter Pipeline

Inter Pipeline transports 35% of Canadian oil sands production, owns NGL extraction assets, and operates a liquids storage business in Europe.

The stock has taken a beating as a result of the downturn in the oil market, but Inter Pipeline continues to deliver solid operating results.

The company just reported record Q4 2015 funds from operations of $211 million, up 32% from the same period in 2014. Net income hit a quarterly record of $138 million.

Inter Pipeline's oil sands customers have deep pockets, and the facilities they operate are multi-billion dollar plants designed to produce for decades. Production will continue because the costs associated with shutting down the facilities are way too high, even with oil prices at their current levels.

Inter Pipeline's storage business enjoyed a Q4 2015 utilization rate of 97%, up from 84% in Q4 2014. Funds from operations in the unit rose 79% to $28 million.

The NGL extraction business delivered funds from operations of $25 million in Q4 2015, similar to the results in Q4 of the previous year. The full-year 2015 performance in the NGL group was weak compared with 2014, and the operations could continue to face some challenges in the short term.

Inter Pipeline raised its monthly dividend by 6% in November to 13 cents per share. The current distribution yields 6.7%.

The payout ratio is less than 70%, so the dividend should be safe, and investors could see a strong rally in the stock when the energy sector begins to recover.

CATEGORY

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1. TSX:NA (National Bank of Canada)

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