



These 2 Dividend Stocks Yield Over 5% and Are Set for Double-Digit Returns

Description

It probably would not be an understatement to say dividends now matter more than ever—according to a recent report by Bank of America, interest rates are now lower than they've been in 5,000 years.

To make matters worse, not only are interest rates low, but there are now over \$11.7 trillion in negative-yielding bonds globally, and Germany just sold 10-year bonds for a yield of -0.05%. This means that investors are essentially paying to lend the German government money, rather than earning a return.

Things are not much better in Canada; 10-year government bond yields in Canada are currently 1.06%, but with inflation recently coming in at 1.5%, Canadian real interest rates are negative. With this in mind, dividend stocks that have yields of over 5% seem like a luxury. While these yields come at a higher risk than government bonds, buying names with strong and predictable earnings growth means investors can receive these yields with the added bonus of reasonable risk and big potential share-price increases.

Two names that meet these criteria are **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) and **Brookfield Infrastructure Partners LP** ([TSX:BIP.UN](#))([NYSE:BIP](#)).

Vermilion Energy

Vermilion is an oil and gas company, and investors may find it odd that a commodity stock would be listed among low-risk, high-yielding dividend names. Vermilion fits right in, however. The stock currently has a yield of 6.23%, and Vermilion stands out in the oil and gas sector as never having reduced its dividend, despite paying a dividend since 2003 and operating through two major crashes in the price of oil.

Vermilion currently has an expected 2016 debt-to-cash flow ratio of 3.1, which compares to the peer group average of 4.6. The stability of Vermilion's dividend is due to its roughly equal balance of oil and gas production as well as global diversification (which includes heavy European exposure). This allows Vermilion to realize higher Brent prices for crude as well as higher European natural gas prices, which are three times higher than Canadian prices and only weakly correlated to North American natural gas prices.

This diversification is combined with best-in-class asset quality (this means low decline rates, which in turn results in strong capital efficiency and plenty of free cash flow). Vermilion expects to be free cash flow positive this year at US\$50 per barrel oil, and in 2017 the company expects 17% production growth as new production from its Corrib project as well as other recent acquisitions comes online.

This combined with an improving outlook for both crude oil (the IEA sees a global supply deficit next year) as well as European natural gas will both support the dividend; there could also be possible increases in the dividend. With breakeven prices for U.S. crude producers being over US\$60 per barrel, oil prices are almost certain to rise, and this will be a major tailwind to earnings growth for Vermilion.

Brookfield Infrastructure Partners LP

Brookfield Infrastructure Partners is an owner and operator of infrastructure assets like ports, railroads, pipelines, airports, and communication infrastructure. The long-life, low-competition, contracted nature of these assets means Brookfield's cash flows—and therefore its dividend—are highly secure.

Brookfield's current yield is close to 5%, although it was traditionally much higher. Brookfield shares have appreciated by nearly 16% since early May, which has driven the yield down. Despite this, Brookfield's dividend is sure to rise over time.

The company has predictable cash flow growth of 6-9% annually going forward (with some analysts seeing double-digit growth in the near term), and this growth is driven by highly predictable sources. These include inflationary price increases that are built in to Brookfield's contracts, GDP growth (which leads to predictable growth in some of Brookfield's businesses), as well as organic growth through capital investment.

This growth does not include M&A, which Brookfield has historically been very successful at, and should tip Brookfield's cash flow growth into the double-digit range (it has grown at a 23% CAGR for the past eight years). This is good news for both the stability and growth of Brookfield's dividend.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)

2. NYSE:VET (Vermilion Energy)
3. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
4. TSX:VET (Vermilion Energy Inc.)

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