Boost Your Portfolio's Yield With These 2 Stocks

Description

If your portfolio lacks yield and you're ready to do something about it, then you've come to the right place.

Let's take a closer look at why **Pattern Energy Group Inc.** (TSX:PEG)(NASDAQ:PEGI) and **Canadian Apartment Properties REIT** (TSX:CAR.UN) would be great additions to your portfolio.

Pattern Energy Group Inc.

Pattern is one of the world's largest generators of wind power. Its portfolio consists of 17 wind-power facilities, including one it has agreed to acquire, with a total owned capacity of 2,554 megawatts located across the United States, Canada, and Chile.

The great part about Pattern is that its assets involve long-term, fixed-price power-sale agreements, which result in stable and predictable cash flows. These cash flows allow it to acquire additional facilities while also returning a significant amount of cash to its shareholders.

Pattern has been on a tear in 2016; revenues are up 21.1% to US$181.08 million, its adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) are up 38% to US$156.72 million, and its cash available for distribution (CAFD) is up 105.1% to US$76.52 million in the first half of 2016 compared with the first half of 2015.

Its strong performance was driven by its "prudent capital and cost management" strategies and its growing portfolio, including its 11.9% year-over-year increase in total owned capacity to 2,554 megawatts.

Its growth prospects are also very strong going forward. Pattern has a strategy in place to expand its total owned capacity to 5,000 megawatts by the end of 2019, and it believes it can reach this goal while reducing its total operating costs on a per-turbine basis.

It's also worth noting that wind energy is one of the fastest-growing sources of new electricity in the world; it grew by 23% in Canada in 2015, and it's growing in more than 90 countries around the world at an average annual rate of 22%, according to *WindFacts.*

Pattern's ample amount of CAFD allows it to pay a quarterly dividend of US$0.40 per share, representing US$1.60 per share on an annualized basis, and this gives its stock a very high yield of about 6.7% at today's levels. This yield is also very safe when you consider that its CAFD totaled US$76.52 million and its dividend payments totaled US$56.1 million in the first half of the year, resulting in a 73.3% payout ratio, which is below its payout target of 80%.

Pattern is also one of the industry's top dividend-growth plays. It has raised its quarterly dividend for 10 consecutive quarters and its annual dividend payment for two consecutive years, and its numerous hikes have it on pace for 2016 to mark the third consecutive year with an increase.

Also, Pattern has a dividend-payout target of 80% of its CAFD, so I think its very strong growth, including its projected 35.2-56.8% year-over-year increase to US$125-145 million in fiscal 2016, will allow its streak of quarterly and annual dividend increases to continue for many years to come.

Canadian Apartment Properties REIT

Canadian Apartment Properties REIT, or CAPREIT for short, is one of Canada's largest residential landlords. It has ownership interests in 48,464 residential suites and sites, comprising of 42,021 apartment and townhome suites and 6,443 land-lease sites in 31 manufactured home communities. Its suites are located in and around major urban centres across Canada, which maximizes its exposure to renters.

The advantages to CAPREIT's business model include stable and predictable cash flows from a diverse resident group, short-term leases that allow it to consistently raise its rates, and the fact that residential real estate is much more liquid than commercial.

CAPREIT recently reported strong earnings results for the first half of 2016. Its operating revenues are up 12.8% year over year to $292.29 million, its net operating income is up 12.4% year over year to $175.46 million, its normalized funds from operations (NFFO) is up 16.1% year over year to $110.75 million, and its NFFO per share is up 3.3% year over year to $0.864.

Its strong financial performance was driven by its addition of 6,485 residential suites since the conclusion of the year-ago period and its average monthly rent increasing 0.4% year over year to $980, and it did all of this while keeping its occupancy ratio steady at a very high 98.2%. Its growth prospects are also very strong going forward, as it has identified the potential to develop about 1,600 new suites on its owned properties over the next three years, which will immediately be accretive to its cash flows once they are occupied.

CAPREIT's strong generation of NFFO allows it to pay a monthly distribution of $0.1042 per share, representing $1.25 per share on an annualized basis, and this gives its stock a high yield of about 4.1%. This yield is easily confirmed as being safe when you consider that its NFFO totaled $110.75 million and its distributions totaled just $79.75 million in the first half of 2016, resulting in a rock-solid 72% payout ratio.

Like Pattern Energy, CAPREIT has consistently grown its distribution. Its streak currently sits at four consecutive years, and its two hikes since the start of 2015 have it on pace for 2016 to mark the fifth consecutive year with an increase. Its consistent NFFO growth could allow this streak to continue for the next several years, so investors can confidently view it as both a high-yield and distribution-growth play.

Is one a better buy than the other?

I think both Pattern and CAPREIT are strong buys, but if I had to choose just one, I'd go with Pattern because it has a much higher yield and is growing at a higher rate.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)

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