Get Big Income With These 3 +7% Yielders

Description

In today's world, it's tough to get sustainable income, at least from the usual sources.

GICs, bonds, and other traditional sources of income still exist, but yields are pitiful. A decade ago, GIC rates were higher than 4% if you locked up your money for five years. These days they barely pay half of that, despite the environment getting more competitive.

So investors have reacted exactly how you'd expect. They've moved to the stock market, buying up shares of our finest blue-chip stocks with the expectation to hold for a very long time.

There's just one problem. As more and more investors move into so-called quality stocks, the valuations of these companies are starting to get stretched. While their yields still look rock solid, there's the possibility of some capital losses. At some point, valuations will return to more normal values.

Investors can guard against this by buying stocks that are undervalued today–companies that have a margin of safety. These companies often have higher yields as well since investors have spurned them.

Here are three stocks yielding at least 7% to get you started.

Alaris Royalty

After releasing disappointing earnings in late July, shares of **Alaris Royalty Corp.** (TSX:AD) plummeted close to 30%. For astute investors, this is a buying opportunity.

There's a lot to like about the royalty business. The business can be scaled up indefinitely; the only real limit is the company's access to capital. There's a lot of profit to be made borrowing money at 3% to exchange for a 12% or 14% return.

There are short-term risks, however. KMH, one of the company's largest partners, has stopped paying regular distributions. Management is hopeful negotiations will result in Alaris getting most of its money back, but it still recorded an impairment on the investment of $7 million in the latest quarter.

In short, the market is afraid Alaris's 15 other partners may be riskier than first assumed.

But the company still makes enough to afford its 7.1% dividend, and shares are trading at a reasonable 15.1 times earnings. And if we look further back, the company has a nice record of raising its dividend and increasing earnings.

Capital Power

The market is finally waking up to the massive earning power of **Capital Power Corp.** (TSX:CPX), pushing shares of the power producer to 52-week highs. Still, it's easy to argue shares are undervalued.

Over the last year, the company earned $3.40 per share in free cash flow, putting the company at just 6.4 times that metric. Or, to put it another way, the company earns a 15.8% free cash flow yield. There aren't many stocks that can boast that in 2016.

The risk is the company's Alberta-based coal-fired power operations. The NDP government has pledged to rid Alberta of coal-fired power by 2030–a move that will hurt Capital Power's long-term earnings prospects. But the company will likely get a substantial settlement from the government for its loss–enough to ensure it won't be in too bad of shape. Besides, it still has more than a decade to keep earning those succulent cash flows from the assets before they're shuttered.

Shares yield 7.2%, and the payout ratio is just 46% of free cash flow.

Artis

Artis Real Estate Investment Trust (TSX:AX.UN) is being punished for its exposure to Alberta, even though, as a whole, the company's portfolio is doing just fine.

The company projects adjusted funds from operations of $1.28 per unit for 2016, putting shares at just 10.1 times this key earnings metric for REITs. That's cheap, no matter how you slice it.

It also means the company's 8.3% dividend is sustainable. Dividends for 2016 will be $1.08 per share, which is a payout ratio of 84%. That's a little high, but it does leave room for error in case Alberta's economy gets even worse.

Conclusion

Many stocks yielding more than 7% are risky, and, all things considered, these three companies are probably a little riskier than stocks yielding half as much. But I still think they can maintain their generous payouts.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AD.UN (Alaris Equity Partners Income Trust)
2. TSX:AX.UN (Artis Real Estate Investment Trust)
3. TSX:CPX (Capital Power Corporation)

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