2 High-Quality Income Stocks Yielding up to 8.5%

Description

As income investors, we're always on the lookout for high-quality stocks that can boost our portfolios' returns.

Let's take a closer look at why **Dream Industrial Real Estate Invest Trst** (TSX:DIR.UN) and **Cineplex Inc.** (TSX:CGX) should be on your radar.

Dream Industrial Real Estate Investment Trust

Dream is the largest pure-play industrial REIT in Canada. It owns and manages a portfolio of 219 industrial properties, comprising of approximately 17 million square feet located across Alberta, Saskatchewan, Ontario, Quebec, Nova Scotia, and New Brunswick.

One of Dream's key attributes is that its properties are strategically located in major markets where there is strong demand for its facilities, including Calgary, Edmonton, Regina, the Greater Toronto Area, Montreal, and Halifax. This strategy has resulted in a very high 94.7% occupancy rate and an average remaining lease term of approximately 4.2 years as of June 30.

Dream currently pays a monthly distribution of $0.05833 per unit, representing $0.70 per unit on an annualized basis, and this gives its stock a very high yield of about 8.5% at today's levels.

A yield over 8% may cause some investors to cast doubt on its stability, but it's actually very easy to confirm the safety of a REIT's yield; all you have to do is make sure that its funds from operations meet or exceed its distributions in a given period. In the first half of 2016, Dream's adjusted funds from operations (AFFO) totaled $0.402 per diluted unit, and its distributions totaled just $0.35 per unit, resulting in a solid 87.1% payout ratio.

Dream is also a very reliable income provider. It has raised its distribution rate once since its initial public offering in October 2012, and it has maintained its current rate since April 2013. I think its consistent AFFO generation, including $0.82 per diluted unit in fiscal 2015 and $0.402 per diluted unit in the first half of 2016, could allow it to continue to maintain its current rate for many years to come.

Cineplex Inc.

Cineplex is Canada’s largest owner and operator of movie theatres with 163 from coast to coast under its many brand names, including Cineplex Cinemas, Galaxy Cinemas, SilverCity Cinemas, and Scotiabank Theatres. It also has operations in food service, alternative programming and events, digital commerce, advertising, and gaming, and it owns 50% of SCENE, Canada’s largest entertainment loyalty program.

The highlight of Cineplex is its dominant market share. As of June 30, it owns an estimated 78.5% box office market share in Canada, and this is nearly eight times larger than the second-largest player in the industry, Landmark Cinemas, which has an estimated 9.9% market share.

Cineplex has achieved its incredible market share by expanding its own brands and acquiring others, including its acquisition of 24 Empire Theatres for $194 million in 2013. Its strong financial position could allow it to continue to grow in the years ahead.

Cineplex currently pays a monthly dividend of $0.135 per share, representing $1.62 per share on an annualized basis, which gives its stock a yield of about 3.2% at today’s levels.

Even though it may not seem completely necessary to confirm the safety of 3.2% yield, I think investors should always do so anyways. With this being said, Cineplex’s adjusted free cash flow totaled $1.097 per share, and its dividend payments totaled just $0.79 per share in the first half of 2016, resulting in a solid 72% payout ratio.

Cineplex also has a strong track record of growing its dividend. It has raised its annual dividend payment for five consecutive years, and its recent hikes, including its 3.8% hike in May, have it on pace for 2016 to mark the sixth consecutive year with an increase.

I think its consistent growth of adjusted free cash flow, including its 7.8% year-over-year increase to $2.492 per share in fiscal 2015 and its 1% year-over-year increase to $1.097 per share in the first half of 2016, could allow its streak of annual dividend increases to continue for the foreseeable future, making it both a high-yield and dividend-growth play.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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1. TSX:CGX (Cineplex Inc.)
2. TSX:DIR.UN (Dream Industrial REIT)

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