



2 Quality 5% Yields to Buy for Income

Description

If you're an income investor with cash on hand that you're ready to put to work in the market, then you've come to the right place. Let's take a closer look at two high-quality stocks that you could buy right now.

Pizza Pizza Royalty Corp.

Pizza Pizza Royalty Corp. ([TSX:PZA](#)), or PPRC for short, owns certain trademarks and trade names associated with the Pizza Pizza and Pizza 73 brands in Canada. It licenses these properties to Pizza Pizza Limited for use in operating and franchising restaurants in exchange for a royalty of 6% of sales at Pizza Pizza and 9% of sales at Pizza 73. As of September 30, there are 736 restaurants in its royalty pool.

PPRC currently pays a monthly dividend of \$0.0713 per share, representing \$0.856 per share on an annualized basis, which gives its stock a tasty 5.3% yield today.

As smart investors, we know we must always check the safety of a stock's dividend before investing, and this is very easy to do with PPRC, because it provides a cash flow metric called "adjusted earnings available for shareholder dividends" in its earnings reports. In its nine-month period ended on September 30, its adjusted earnings available for shareholder dividends totaled \$15.6 million, and its dividend payments totaled \$15.6 million, resulting in an even 100% payout ratio, which is perfectly in line with its target payout ratio of at or near 100%.

Not only does PPRC offer a high and safe stream of monthly dividends, but it also offers dividend growth. Following the payment of its November and December dividends, it will have officially raised its annual dividend payment for five consecutive years, and its 2.4% hike in June has it positioned for 2017 to mark the sixth consecutive year with an increase.

I think PPRC's dividend-growth prospects are very strong going forward as well. I think its consistent growth of adjusted earnings available for shareholder dividends, including its 2.7% year-over-year increase to \$15.6 million in the first nine months of 2016, and its growing royalty pool, including its addition of six net new locations so far in 2016, will allow its streak of annual dividend increases to

continue through 2020 at the very least.

Pembina Pipeline Corp.

Pembina Pipeline Corp. ([TSX:PPL](#))([NYSE:PBA](#)) is a pure-play energy infrastructure company with operations in Canada and the United States. Its assets include pipelines, natural gas gathering and processing facilities, fractionation plants, midstream storage facilities, and truck terminals.

It currently pays a monthly dividend of \$0.16 per share, representing \$1.92 per share on an annualized basis, giving its stock a generous 5% yield.

You can confirm the safety of Pembina's dividend by checking its cash flow. In its nine-month period ended on September 30, its adjusted cash flow from operating activities totaled \$694 million (\$1.80 per share), and its dividend payments totaled just \$547 million (\$1.42 per share), resulting in a sound 78.8% payout ratio.

Like PPRC, Pembina has a reputation for dividend growth. Its streak of annual dividend increases will officially reach five following the payment of its December dividend, and its 4.9% hike in March has it on pace for 2017 to mark the sixth consecutive year with an increase.

Pembina's dividend-growth potential is fantastic beyond 2017 too. I think its consistent financial growth, including its 2.9% year-over-year increase in adjusted cash flow from operating activities to \$1.80 per share in the first nine months of 2016, and its strategic growth initiatives, including its \$5 billion in secured growth projects that will be commissioned by the end of 2017, will allow its streak of annual dividend increases to continue for another five years at least.

Should you prefer one to the other?

I think both PPRC and Pembina Pipeline are great picks for growing streams of monthly income, but if I had to choose just one to invest in today, I'd go with Pembina because I think its strategic growth initiatives will lead to significant dividend growth over the next couple of years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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