2 Mid Caps Yielding up to 6.4% to Buy for Income

Description

Investing in monthly dividend stocks is the only way to generate significant income these days, because bonds, GICs, savings accounts, and other traditional sources of income yield next to nothing.

With this in mind, let's take a closer look at two mid caps with yields up to 6.4% that you could buy right now.

TransAlta Renewables Inc.

TransAlta Renewables Inc. (TSX:RNW) is one of the largest owners and operators of clean energy infrastructure in North America and Australia. Its portfolio consists of 39 power-generation facilities, including 18 wind facilities, 13 hydroelectric facilities, and eight gas-fired facilities, which have a total generating capacity of over 2,600 megawatts, and a 43% ownership stake in a natural gas pipeline.

TransAlta currently pays a monthly dividend of $0.07333 per share, representing $0.88 per share on an annualized basis, giving its stock a rich 6.4% yield today.

It's of the upmost importance to always confirm the safety of a stock's dividend before making an investment, and this is very easy to do with TransAlta, because it provides a cash flow metric called "cash available for distribution (CAFD)" in its earnings reports. In its nine-month period ended on September 30, its comparable CAFD totaled $176 million ($0.79 per share), and its dividend payments totaled just $145 million ($0.66 per share), resulting in a sound 82.4% payout ratio, which is within its target range of 80-85%.

With its high yield being confirmed as safe, the next factor to look at is TransAlta's track record of dividend growth, because this amplifies your wealth-building potential over the long term. It has raised its annual dividend payment in each of the last two years, and this streak will officially reach three following the payment of its December dividend.

TransAlta's dividend-growth potential is very high going forward for two reasons in particular.

First, it has stated that it will raise its dividend by 6-7% following the completion of its fully contracted

150 megawatt South Headland Power Station in mid-2017, which means its streak of annual increases will continue through 2018 at the very least.

Second, as mentioned before, TransAlta has a target payout range of 80-85% of its CAFD, so I think its consistently strong growth, including its 25.4% year-over-year increase to $0.79 per share in the first nine months of 2016, and the future growth that will come from its ongoing expansion efforts, including its aforementioned South Hedland facility and the roughly 1,300 megawatts of potential drop-down candidates from **TransAlta Corporation** that it has identified, could allow its streak of annual dividend increases to continue for the next decade.

Cineplex Inc.

Cineplex Inc. (TSX:CGX) is Canada's largest owner and operator of movie theatres with 165 from coast to coast that serve approximately 77 million guests annually. It also operates numerous other businesses, including food service, amusement gaming and eSports, alternative programming, digital commerce, advertising, digital media, and The Rec Room, and it owns 50% of SCENE, which is Canada's largest entertainment loyalty program with more than 7.9 million members.

Cineplex currently pays a monthly dividend of $0.135 per share, representing $1.62 per share on an annualized basis, and this gives its stock a solid 3.2% yield today.

It may not seem completely necessary to confirm the safety of a 3.2% dividend yield, but I think investors should always do so anyways to be absolutely sure, and you can do this by checking Cineplex's cash flow. In its nine-month period ended on September 30, its adjusted free cash flow totaled $116.42 million ($1.835 per share), and its dividend payments totaled just $75.82 million ($1.195 per share), resulting in a conservative 65.1% payout ratio.

In addition to its healthy yield, Cineplex has a reputation for growing its dividend. Following the payment of its December dividend, it will have officially raised its annual payment for six consecutive years, and its 3.8% hike in May has it positioned for 2017 to mark the seventh consecutive year with an increase.

It's also important to note that Cineplex traditionally raises its dividend in May of each year, and I think its very strong financial performance, including its 10.9% year-over-year increase in free cash flow to $1.835 per share in the first nine months of 2016, and its strategic initiatives that will drive future growth, including its addition of three net new theatres and its acquisitions of Tricorp Amusements and SAW so far in 2016, will allow it to continue this tradition through 2020 at the very least.

Is one a better buy?

I think both TransAlta and Cineplex are strong buys, but if I had to choose just one to invest in today, I'd go with TransAlta because it has a much higher yield and higher growth potential going forward.

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