2 Small Caps With +4% Yields 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 high-quality small caps with yields over 4% that you could add to your portfolio today.

Plaza Retail REIT

Plaza Retail REIT (TSX:PLZ.UN) is a leading owner and developer of retail properties in Canada. Its portfolio consists of 297 properties totaling approximately 7.6 million square feet located across Alberta, Manitoba, New Brunswick, Newfoundland, Nova Scotia, Ontario, Prince Edward Island, and Quebec.

Plaza currently pays a monthly distribution of $0.0225 per unit, representing $0.27 per unit on an annualized basis, and this gives its stock a rich 5.4% yield today.

It's of the utmost importance to confirm the safety of a stock's distribution before making an investment, especially if you will be relying on this investment to supplement your income, and you can do this with Plaza by checking its cash flow. In its nine-month period ended on September 30, 2016, its adjusted funds from operations (AFFO) totaled $23.94 million ($0.245 per unit), and its distributions totaled just $19.15 million ($0.195 per unit), resulting in a sound 80% payout ratio.

In addition to a high and safe income stream, Plaza offers distribution growth. Fiscal 2016 officially marks the 13th consecutive year in which it has raised its annual distribution, and its 3.8% hike which took effect this month has it on pace for fiscal 2017 to mark the 14th consecutive year with an increase.

I think Plaza is well positioned to continue growing its distribution going forward as well. I think its continually strong AFFO growth, including its 6.7% year-over-year increase to $0.318 per share in fiscal 2015 and its 6.5% year-over-year increase to $0.245 per unit in the first nine months of 2016, will allow its streak of annual distribution increases to continue in 2018 and beyond.

Morneau Shepell Inc.

Morneau Shepell Inc. (TSX:MSI) is Canada's leading provider of employee- and family-assistance programs, its largest administrator of retirement and benefits plans, and its largest provider of integrated absence-management solutions. Overall, it's the country's leading provider of human resources consulting and outsourcing services.

Morneau Shepell pays a monthly dividend of $0.065 per share, representing $0.78 per share on an annualized basis, giving its stock a lavish 4.1% yield at today's levels.

As mentioned previously, we must always confirm the safety of a stock's dividend, and we can do this with Morneau Shepell by checking its cash flow. In its nine-month period ended on September 30, 2016, its normalized free cash flow totaled $51.21 million, and its dividend payments totaled just $29.63 million, resulting in a very conservative 57.8% payout ratio.

On top of having a high and safe yield, Morneau Shepell is a very reliable income provider. It has maintained its current monthly dividend rate since January 2011, and I think its very strong growth of free cash flow, including its 18% year-over-year increase to $51.21 million in the first nine months of 2016, and its reduced payout ratio, including 57.8% in the first nine months of 2016 compared with 64.7% in the same period in 2015, could allow it to continue to do so for decades.

Which is the better buy now?

I think both Plaza Retail REIT and Morneau Shepell represent great long-term investment opportunities for income investors, but if I had to choose just one to invest in today, I'd go with Plaza, because it has a higher yield and a very impressive track record of distribution growth.

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Date
2025/07/03
Date Created
2017/01/09

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