

2 Top Picks for Your Income Portfolio

Description

As income investors, we want to own stocks with high and reliable dividends, and the absolute best stocks to buy are those that can also grow their dividends over time.

Let's take a closer look at why **Pizza Pizza Royalty Corp.** ([TSX:PZA](#)) and **Parkland Fuel Corp.** ([TSX:PKI](#)) should be two of your top picks for income today.

Pizza Pizza Royalty Corp.

Pizza Pizza Royalty Corp., or PPRC for short, owns certain trademarks and trade names used by Pizza Pizza Limited for use in operating and franchising Pizza Pizza and Pizza 73 restaurants in Canada. PPRC licenses these properties to Pizza Pizza Limited in exchange for a royalty of 6% of sales at its Pizza Pizza restaurants and 9% of sales at its Pizza 73 restaurants. As of January 1, there are 751 restaurants in PPRC's royalty pool, including 651 Pizza Pizza restaurants and 100 Pizza 73 restaurants.

PPRC currently pays a monthly dividend of \$0.0713 per share, representing \$0.856 per share on an annualized basis, and this gives its stock a succulent 5% yield at today's levels.

Confirming the safety of this 5% yield is as easy as checking PPRC's most recent earnings release, because it provides a cash flow metric called "adjusted earnings available for shareholder dividends" as well as its payout ratio in each report. In its fiscal year ended on December 31, 2016, its adjusted earnings available for shareholder dividends totaled \$21.08 million, and its dividend payments totaled \$20.87 million, resulting in a 99% payout ratio, which is in line with its target payout ratio of at or near 100%.

If having a high and safe 5% yield were not enough to have you salivating over PPRC, it's also one of the best dividend-growth plays in the restaurant industry. It has raised its annual dividend payment in each of the last five years, and its 2.4% hike in June 2016 has it on pace for 2017 to mark the sixth consecutive year with an increase.

I think investors can count on PPRC for continued dividend growth in the years ahead as well. I think its continual growth of adjusted earnings available for shareholder dividends, including its 17.7% year-over-year increase to \$20.77 million in 2015 and its 1.5% year-over-year increase to \$21.08 million in 2016, and its growing royalty pool that will help fuel future earnings growth, including its addition of six net new restaurants in 2016 and 15 net new restaurants in January, will allow its streak of annual dividend increases to continue for another five years at least.

Parkland Fuel Corp.

Parkland is one of North America's leading providers of gasoline, diesel, propane, lubricants, heating oil, and other high-quality petroleum products to motorists, businesses, households, and wholesale

customers. It has operations across Canada and the United States, and its brands include Bluewave Energy, Columbia Fuels, Farstad Oil, Fas Gas Plus, Island Petroleum, Pioneer, Propane Nord-Ouest, RaceTrac, and Sparlings Propane.

Parkland currently pays a monthly dividend of \$0.09617 per share, representing \$1.154 per share on an annualized basis, which gives its stock a beautiful 4.2% yield at current levels.

You can easily confirm the safety of Parkland's dividend by checking its cash flow. In its fiscal year ended on December 31, 2016, its adjusted distributable cash flow totaled \$152.6 million (\$1.60 per share), and its dividend payments totaled just \$109.1 million (\$1.13 per share), resulting in a sound 71.5% payout ratio.

Like PPRC, Parkland offers dividend growth in addition to its high and safe yield. It has raised its annual dividend payment for four consecutive years, and its two hikes since the start of 2016, including its 5% hike in March 2016 and its 1.8% hike earlier this month, have it positioned for 2017 to mark the fifth consecutive year with an increase.

I think Parkland can continue to deliver dividend growth going forward too. I think its consistent growth of adjusted distributable cash flow, including its 12.2% year-over-year increase to \$137.7 million in 2015 and its 10.8% year-over-year increase to \$152.6 million in 2016, and its pending acquisition of the Canadian assets of **CST Brands, Inc.**, which is expected to close in the second quarter and be "immediately accretive" to its distributable cash flow, will allow its streak of annual dividend increases to continue into the late 2020s.

Which one belongs in your portfolio?

PPRC and Parkland Fuel both offer high, safe, and growing dividends, making them ideal investment options for income investors. Take a closer look at each and strongly consider initiating a position in at least one of them today.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:PKI (Parkland Fuel Corporation)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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