2 Top Infrastructure Stocks Yielding 4% or More for Income-Hungry Investors

Description

Despite Bank of Canada hiking interest rates twice this year to now see the headline overnight rate at 1%, the headline rate remains well below the historical average. This makes it difficult for income-hungry investors, such as retirees, who are seeking stable, lower-risk, income-producing assets to generate sufficient income from bonds and GICs. That has triggered a hunt for yield among investors as they search for lower-risk investments that generate sufficient yield to meet their income needs.

The advantage of investing in infrastructure stocks is that they possess wide economic moats, have stable contracted earnings, and typically operate in oligarchical markets that allow them to be price makers rather than price takers. Those characteristics endow them with stable earnings growth and protects their dividends, making them relatively low-risk investments for income-hungry investors.

Let's take a closer look at two stocks that possess these attributes and have yields of 4% or greater, which is the yield of 10-year government treasuries, and makes them ideal sources of income for retirees.

Now what?

The first stock is **Brookfield Infrastructure Partners L.P.** (TSX:BIP.UN)(NYSE:BIP), which pays a regular distribution yielding 4% and owns a geographically diverse portfolio of critical infrastructure assets spanning ports, railroads, toll roads, utilities, and telecommunications towers. It operates in developed and emerging economies that endow it with a mixture of stability and growth.

Brookfield Infrastructure has an enviable history of making accretive acquisitions, the latest being a Brazilian natural gas transmission utility and a telecommunications tower business in India. These deals have bolstered its presence in developing nations that are expected to experience strong economic growth over coming years, enhancing its own growth prospects.

This is attested to by its second-quarter 2017 results, where revenue more than doubled year over year.

When coupled with most of its cash flow coming from contracted or regulated sources and a payout ratio of 66% of funds flow, it means that its distribution is sustainable.

The world is facing a massive trillion-dollar shortfall in infrastructure investment, particularly in developing economies. Government funding shortfalls have created considerable investment opportunities for Brookfield Infrastructure. This will act as a powerful long-term tailwind for the partnership.

The next opportunity is **Enbridge Income Fund Holdings Inc.** (TSX:ENF), which owns a diversified portfolio of critical energy infrastructure consisting of liquids as well as gas pipelines and renewable energy assets.

Its regular dividend payment yields a very tasty 6%. With a payout ratio of less than 100% of Enbridge Income Fund's net income, this indicates that it is sustainable. That monster yield is further supported by 99% of Enbridge Income Fund's cash flows coming from predictable contracted sources, the steep barriers to entry to the energy infrastructure industry, and the relatively inelastic demand for energy.

Higher oil and gas prices bode well for Enbridge Income Fund's outlook.

You see, as prices rise, there will be a greater incentive for oil and gas producers to lift production, which will lead to greater demand for the utilization of the fund's pipeline network. Because those assets deliver ~89% of Enbridge Income Fund's earnings before income tax, the growing demand for its transportation infrastructure created by higher oil and gas output will give earnings a healthy bump.

So what?

Both stocks are highly appealing sources of income because of their high-quality businesses, stable sources of income, wide economic moats, and high demand for the utilization of their assets. These attributes ensure that those appealing yields will remain sustainable over the long term while supporting future dividend hikes.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/10/01
Date Created
2017/10/13
Author
mattdsmith