



2 Dividend-Growth Stocks Yielding 5% That Are Poised to Soar

Description

Despite recent interest rates hikes, which now have the headline overnight rate at 1%, assets traditionally associated with income, such as bonds and GICs, still are not providing sufficient yield for income-hungry investors. This sees investors such as retirees focused on identifying relatively low-risk stocks with stable earnings and juicy yields to boost their income. While high yields may be important, it is also crucial to identify those that possess solid growth potential and the ability to not only sustain those juicy yields, but to grow their dividend payments.

Now what?

One solid growth opportunity yielding close to 6% is clean energy provider **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

Its earnings have suffered in recent years because of lower than average electricity generation caused by poor hydrology. That can be blamed on climatic phenomena, such as the El Niño weather pattern, which has been easing in recent months and is reflected in Brookfield Renewable's latest results.

Improved water levels during the second quarter 2017 caused electricity generation to climb by an impressive 32% year over year, giving earnings a healthy bump. Adjusted EBITDA shot up 21% and funds flow rose by a stunning 72%, which saw net income come in at US\$85 million compared to a US\$19 million loss a year earlier. This trend should continue because of the declining impact of the El Niño weather pattern on rainfall in South America combined with improved electricity generation from its Colombian and Brazilian operations.

Solid earnings growth coupled with the steep barriers to entry for the electric utility industry and the fact that 92% of Brookfield Renewable's cash flows come from contracted sources enhance the partnership's outlook. When combined with its distribution representing only 81% of funds flow, it bodes well for further distribution hikes and the sustainability of that very appealing yield of just under 6%.

Next is midstream services provider to the energy patch **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)). It offers investors a juicy 5% yield and owns a portfolio of liquids and gas pipelines

spanning western Canada as well as storage and processing facilities.

Pembina possesses a wide economic moat, which is buttressed by the significant capital required to enter the industry and steep regulatory barriers, helping to protect it from competition. When combined with the relatively inelastic demand for energy, growing production because of higher prices, and the need to transport oil and gas to key markets, demand for the use of its pipelines will continue to grow. That will drive higher earnings over the longer term.

While on initial appearances, Pembina's juicy yield appears unsustainable with the dividend having a payout ratio of well over 100% of net income, there are other factors that need to be accounted for.

A large majority of Pembina's cash flow is locked in by take-or-pay contracts virtually assuring that segment of its income. It also continues to experience strong earnings growth, and its bottom line will receive a healthy bump from the needle-moving \$9.7 billion Veresen Inc. acquisition completed earlier this month. There is also the portfolio of around \$2 billion of projects under development, which are expected to come online between the end of 2017 and 2018. These will further expand its pipeline as well as storage capacity, giving its earnings a further lift.

So what?

The critical nature of the infrastructure owned by both businesses endows them with wide economic moats, which shields them from competition, and, when coupled with the unchanging demand for those assets, virtually assures their earnings. This also enhances their growth potential, increasing the likelihood of dividend hikes, thereby boosting the sustainability of those juicy yields, making them highly attractive income investments.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
4. TSX:PPL (Pembina Pipeline Corporation)

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