



Income Investors: 2 Contrarian Stock Picks Yielding 7-9%

Description

Canadian retirees and other investors searching for opportunities to boost returns on their savings often find themselves sifting through [high-yield](#) dividend stocks on the TSX Index.

Let's take a look at two out-of-favour companies that might be interesting picks today.

Inter Pipeline (TSX:IPL)

IPL is a midstream player in the Canadian oil patch with oil sands pipelines, conventional oil pipelines, and natural gas extraction facilities. A bulk liquids storage business in Europe rounds out the revenue stream.

IPL made some strategic acquisitions during the oil rout that are generating good returns. Specifically, the company's purchase of two NGL extraction facilities at a 45% discount to the cost to build the sites has resulted in a nice boost to results in the gas-processing division.

Going forward, IPL is constructing a \$3.5 billion plant to produce plastics for manufacturers. The facility, named the Heartland Petrochemical Complex, is expected to begin operation by the end of 2021 and should contribute additional average annual EBITDA of \$450-500 million.

The Q2 payout ratio for the dividend was 62%, so the distribution should be safe while the company works through the development program. At the time of writing, the stock provides a [yield](#) of 7.25%.

AltaGas ([TSX:ALA](#))

AltaGas has had a rough ride over the past year. The stock dropped from a high of about \$30 last fall to a March low near \$23 per share. A brief rally took it back to \$28 in late June, but things have turned sour again and the shares currently trade below \$24.

What's going on?

The market hasn't responded well to the company's \$9 billion takeover of Washington, D.C.-based

WGL Holdings. AltaGas completed the acquisition in early July and is now focused on finding buyers for non-core assets to cover a US\$2.3 billion bridge loan that was used to get the deal done.

Attempts to monetize some assets last year didn't work out, so investors are taking a cautious approach until the balance sheet concerns get sorted out. In addition, the CEO who spearheaded the deal left the company July 25, after the board received an undisclosed complaint.

AltaGas founder and chairman David Cornhill and board member Phillip Knoll are currently running the business, so AltaGas is in good hands until a new CEO is hired. Cornhill started AltaGas in 1994 with \$37,000.

The debt situation will eventually get resolved and AltaGas has an attractive development portfolio that should drive revenue and cash flow higher in the next few years. As a result, the existing dividend should be safe in the near term and investors could see a boost to the payout once things settle down.

The current dividend provides a yield of 9.2%.

The bottom line

It takes some guts to buy stocks when they are being shunned by the market, but the pullback might be overdone in AltaGas and IPL, and you get paid very well while you wait for a rebound.

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Date

2025/08/23

Date Created

2018/09/07

Author

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